CHALLENGES FACING AMERICAN WORKERS

HEARING

BEFORE THE

SUBCOMMITTEE ON INCOME SECURITY
AND FAMILY SUPPORT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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CHALLENGES FACING AMERICAN WORKERS

THURSDAY, SEPTEMBER 11, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 12:30 p.m., in room B–318, Rayburn House Office Building, the Honorable Jim McDermott (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

FOR IMMEDIATE RELEASE
September 04, 2008
ISFS–19

CONTACT: (202) 225–1025

McDermott Announces Hearing on Challenges Facing American Workers

Congressman Jim McDermott (D–WA), Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on challenges facing American workers. **The hearing will take place on Thursday, September 11, 2008, at 12:00 p.m. in B–318, Rayburn House Office Building.** In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled to appear may submit a written statement for consideration by the Subcommittee and for inclusion in the record of the hearing.

BACKGROUND:

The current downturn in the economy presents new risks for workers, especially the continuing rise in unemployment. Concerns about this recent deterioration in the labor market are magnified by longer-term trends affecting workers. For example, the median duration of unemployment has increased over 85 percent since the 1960s, employer-sponsored health insurance coverage has declined 4.9 percentage points since 2000, and real average wages have decreased compared to the early 1970s. These negative trends have occurred even as worker productivity has risen significantly over the last three decades.

In announcing the hearing, Chairman McDermott stated, **"Too many Americans are working more for less—less wages, less security, and less dignity. We need to understand the trends affecting workers, so we can determine how best to respond. American workers are not whiners. They are simply struggling to stay afloat and the lifeboat they need doesn't always reach them."**

FOCUS OF THE HEARING:

The hearing will consider data and analyses describing challenges facing American workers.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Hearing Archives*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, complete all informational forms and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **September 25, 2008**. **Finally**, please note

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FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman MCDERMOTT. The meeting will come to order. As everyone in this room knows, and across America knows, 3,000 of our fellow citizens lost their lives on this same day 7 years ago. Before we start today's hearing, I would ask everyone to join us in a moment of silence to remember and honor those who perished, as well as their families and loved ones.

[A moment of silence is observed.]

Chairman MCDERMOTT. Thank you.

We are here today to look forward into the next congress and the next years that are before us, because, obviously, we don't have much time left to pass legislation. We are here to focus on the challenges that are confronting the American workers and their families.

Mr. Weller was coming back from the event, so I thought I would go ahead and read my statement so then he could read his statement.

Of course, the most important concern at the present time is the rapid rise in unemployment. The number of unemployed has grown by well over 2 million Americans over the last 12 months with nearly 900,000 joining the ranks of the unemployed just since June.

Now, there are some short-term policies we can and should enact to help those dislocated workers, including extending unemployment compensation. Chairman Rangel and I have put in a bill to do another extension of unemployment benefits, which we hope will be considered before this session is over, but the anxieties that workers are feeling go well beyond the current rise in unemployment.

The increase in joblessness comes on the top of long-term problems affecting economic security. Real income for America's working families has fallen since 2000. This drop comes despite the fact that the productivity of our workers continues to grow.

Some downward trends, such as real wages for men, have been occurring over a much longer period of time. The share of workers with employer-based health coverage has also dropped considerably since 2000, driving up the number of uninsured Americans by over 7 million. Similarly, the percentage of workers with employer-sponsored retirement plans has declined, leaving more workers uncertain about their long-term economic security.

America's workers are finding it increasingly hard to balance the competing demands of family and work. As the number of families with two working parents have grown, work schedules has become much less flexible.

Finally, nearly a quarter of all workers find themselves stuck in low-wage jobs, and there is a growing gap between the wages paid in these jobs and the wages paid in average and high-end employment. In short, many Americans are working harder for less: less income, less job security, less health and pension benefits, less time at home, and less opportunity.

Now, left unchecked, this trend will strike at the very core of the American dream. My Republican colleagues will not be shocked to learn that I believe that many of the policies pursued by the current Administration have greatly exacerbated the problems facing workers. I also believe that any comprehensive approach to these challenges must be dealt with on a much broader reality. It has to be bipartisan.

The world we live in today is very different from the one in which our basic safety net for workers was created in 1935. We need to think how to build a new framework to ensure the economic security of America's workers.

Now, in my view, that doesn't mean abandoning programs that still provide real help to those who need it, such as unemployment compensation, but it does require updating existing programs and creating new initiatives to reflect the realities of the current labor market and economy. I look forward to hearing from the witnesses today as we examine these vitally important issues, and begin talking about what the potential responses must be for the 21st century.

I now yield to my Ranking Member, Mr. Weller.

Mr. Weller?

Mr. WELLER. Well, thank you, Mr. Chairman. I know back in July we thought at that time that was going to be the last hearing, and of course I sang your praises, and thanked you for the opportunity to work with you over the last two years as the Ranking

Member of this Subcommittee. Once again, I want to express my gratitude for what I consider to be a good working relationship.

I also want to tell you I am very pleased with the continued progress we are making with the bipartisan child welfare reform package that hopefully will be on the President's desk in a few weeks, thanks to your leadership, and what I see as a good bipartisan effort.

Chairman MCDERMOTT. I spoke to Senator Grassley. They marked it up yesterday, and it's going to be over here.

Mr. WELLER. Yes.

Chairman MCDERMOTT. So, we're going to get it done before you leave.

Mr. WELLER. That would be fun. Well, again, thank you, Mr. Chairman.

As we will hear today, depending on which expert you ask, you can get different answers on what the key challenges facing American workers are. We'll hear concerns about wages, job losses, health coverage, and other issues, which are all important concerns.

If you read most of the testimony today, you will see something is missing. Most of the testimony barely mentions the number one challenge facing American workers, and that's the high price of energy.

Between January of 2007 and July of 2008 in my home State of Illinois, the average price of gasoline doubled. It rose from just over $2 per gallon to over $4 per gallon. That price has now fallen back to about $3.75 per gallon, still nearly 90 percent above the level at the start of this current congress.

Last month, a poll asked, "Has the recent rise in gasoline and oil prices caused you or your family any financial hardship or not?" 73 percent said yes, gas prices have caused them financial hardship. Not surprisingly, Americans want something done, and they want it done now.

Another poll recently asked, "What current economic issue is most important in determining your vote for President?" The number one answer was, "The rising cost of gasoline and fuel." Five times as many people said they were concerned about rising energy prices, compared with losing their job.

The hardship doesn't stop with pain at the pump. It's also felt at the dinner table, where energy prices are driving up food prices, making families poorer. According to the non-partisan Congressional Research Service, 1.2 million working American households have seen their standard of living fall below poverty due to excess food and fuel inflation between 2005 and 2008. This is all before fall and winter set in, driving up home heating costs to previously unseen, and some might say "obscene," levels.

The pain doesn't end there, either. It is also felt in the workplace, as high energy prices lead directly to job loss. As one of our witnesses today describes, a $2 rise in gasoline prices like the one we have seen since January of 2007 is estimated to reduce employment by about half-of-a-million jobs, which just about matches the real decline in employment since January of 2007.

Mr. Chairman, the people I am privileged to represent don't want hand-outs. Like all Americans, they want to afford the energy they

need to get to work, put food on the table, and to heat their homes. That is not too much to ask, but that is something this Congress has totally failed at delivering.

If we want to truly address the challenges facing American workers, the very first thing we need to do is to reverse the damage already done to American families, workers, and businesses by high energy prices. That means increasing energy supplies for all sorts of energy, including oil and gas. That, in turn, will reduce gasoline prices, cut energy-induced poverty, and reverse energy-caused job losses.

A second challenge largely unmentioned in today's testimony involves creating more jobs as this country produces and trades with our overseas partners. The facts are clear. Trade works for my home State of Illinois, and for the United States of America.

Good trade agreements are boosting exports, helping provide one of the few bright spots in today's economic news. Growing exports accounted for more than 90 percent of the 3.3 percent economic growth in the last quarter. In the first half of 2008, we were running a manufacturing trade surplus of $6.6 billion with our free trade agreement partners.

In fact, our current trade surplus with the CAFTA nations has increased more than 150 percent. For Illinois, that means exports of machinery made in places like Joliet are up 28 percent, and exports of corn grown in places like La Salle County are up 48 percent.

We must continue our path toward opening markets by passing legislation to implement the Colombia, Panama, and South Korea fair trade agreements. Colombia alone is a market of 42 million people, larger than California. While Colombia enjoys an open market to the United States, our products sold in Colombia are taxed, hampering our ability to export to this $30 billion market.

Panama, too, has duty-free access to our markets, but we pay tariffs on our goods and services sold to Panama.

South Korea represents the largest market we have ever negotiated a free trade agreement with, a huge opening for the United States into Asia. These economic opportunities for our workers are too important to be left to partisan politics. They deserve a vote and swift passage this year.

Mr. Chairman, I look forward to working to reduce challenges for American workers, and to hearing the witnesses' testimony today. Thank you.

Chairman MCDERMOTT. Thank you very much, Mr. Weller. Any other Members who want to make statements, we will give five working days to put your remarks in the record.

Today our panel begins with Jared Bernstein, who is a Ph.D. senior economist at the Economic Policy Institute. Dr. Bernstein?

STATEMENT OF JARED BERNSTEIN, PH.D., SENIOR ECONOMIST, ECONOMIC POLICY INSTITUTE

Dr. BERNSTEIN. Chairman McDermott, Ranking Member Weller, I thank you for inviting me to testify, and I applaud the Subcommittee for taking up this issue.

As the Subcommittee knows, many working families face uniquely tough times. Most recently, a recession has gripped the labor

market, and payrolls are down by over 600,000 this year. Unemployment is up sharply, and compensation is consistently lagging inflation.

Underemployment, a broader measure of labor market weakness, hit 10.7 percent last month, driven by a sharp increase in so-called involuntary part-time workers, persons working part-time who would prefer full-time jobs. In August there were 5.7 million of those persons.

The fact that millions of workers cannot find the jobs or the hours they need right now, in tandem with the most recent commodity-driven acceleration in inflation, has led to persistent declines in inflation-adjusted earnings in compensation. If we hope to understand and address the economic insecurities facing American workers, we must recognize that the challenges they face pre-date the recession, and certainly pre-date the recent increase in gas prices.

There may be no more telling statistic of this point than the fact that the real wage for the median male was lower in 2007 than in 1973. In that same spirit, it's been widely recognized that the current business cycle of the 2000s is the first on record where the income of the median family gained no ground in real terms, despite strong productivity growth over these years. Even the annual median earnings of college educated workers fell 3 percent from 2000 to 2007, in real terms.

It was not always so. Between the mid-1940s and the mid-1970s, the real compensation of most workers—blue collar workers in manufacturing, non-managers in services—and the productivity of the American workforce grew in locked step, both doubling. Since the late 1970s, however, these trends have diverged, and real compensation grew only 7 percent for these workers, 1979 to 2007, a 7-percent increase in real terms over 28 years, while productivity grew 70 percent—70, 7–0.

What explains these trends? One factor in play over the 2000s was uniquely weak job growth. Annual growth in jobs in the 2000 cycle versus past cycles was less than one-third of the average rate. Again, of course this pre-dates any recent spike in energy prices.

A symptom of weak growth is that once these workers lose their jobs, their unemployment spells can be quite long, another factor contributing to the weak income growth and increased worker insecurity. Despite the fact that unemployment was relatively low in the 2000s, weak job creation meant that long-term unemployment stayed elevated. Close to 20 percent of the unemployed were jobless for at least 6 months, on average, over these years.

The insecurity bred by this longer term unemployment was not confined to marginal, less educated, or younger workers. In 2000, 13 percent of unemployed college-educated workers experienced long-term unemployment. In 2007, that share jumped to 20 percent.

Other insecurity-generating factors include the long-term shift from pensions that guarantee a fixed payout to variable pensions, defined benefit to defined contribution: a clear shift in the locus of risk from the firm to the worker.

Also, the secular erosion of employer-provided health coverage. Again, even college-educated workers have been affected by this

trend, as the share of these workers with employer-provided coverage fell from 80 percent in 1979 to 68 percent in 2006.

The long-term decline in men's job tenure down about 2 years for men aged 35 to 54 is another factor contributing to the insecurity we're talking about today.

Now, the factors economists believe are responsible for the difficulties facing workers today include: the increased wage premium for more highly educated workers; diminished bargaining power of the majority of the workforce; increased trade imbalances, most notably with developing economies like China, that have very large, low-wage workforces, relative to the United States; and macro-economic weakness, including weak job growth in the absence of periods of full employment in labor markets.

The policy actions to enhance worker security include, first, do no harm. It's important not to exacerbate the problems I have documented with policies such as regressive tax cuts that promote greater inequality. To the contrary, returning some progressivity to the Tax Code would help offset some of these problems. Expanding the earned income credit, or making the child tax credit fully refundable are two areas this Subcommittee might consider.

Second, the diminished bargaining power of many workers should be ameliorated by passing the Employee Free Choice Act, legislation that should help offset the disproportionate sway of anti-Union forces, and level the playingfield for those hoping to organize collective bargaining units in their workplace.

Third, full employment, a tight match between labor supply and labor demand is another important criterion for reducing the gap between overall growth and the standards of working families. The policy levers here rest mainly with the Federal Reserve, but Congress can also play a role that I can discuss during our discussion, as I see I am running out of time.

Changes in the structure of work, the demography of the workforce, along with the trend toward longer unemployment spells, underscore the need for updating our nation's unemployment insurance system. The Unemployment Insurance Modernization Act already passed by this chamber would make such changes, including providing benefits to both part-time workers and for those with shorter job tenures. Thank you.

[The statement of Mr. Bernstein follows:]

Testimony of

Jared Bernstein
Senior Economist, Economic Policy Institute

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Committee on Ways and Means
Subcommittee on Income Security and Family Support
Of the United States House of Representatives

Challenges Facing American Workers

September 11, 2008

Introduction: The Increasingly Insecure American Worker

Chairman McDermott, ranking member Weller, I thank you for inviting me to testify and applaud this committee for taking up this issue of great concern to working families across America.

Many of these families are facing uniquely tough times. Most recently, a recession has gripped the labor market. Payrolls are down by over 600,000, unemployment is up sharply, and compensation is consistently lagging inflation.

But the difficulties facing American workers predated the recession. There may be no more telling statistic of this point than the fact that the real wage for the median male was lower in 2007 than in 1973. In the same spirit, it has been widely recognized that the current business cycle of the 2000s is the first on record where the income of the median family gain no ground in real terms, despite strong productivity growth over these years.

In other words, for many in the workforce, income, wages, and compensation have failed to keep pace with their contribution to their firm's output, violating both a fundamental principle of economics and a basic American value. For the last few decades, they have been losing employer-provided health coverage, or paying more out-of-pocket for premiums, health services, or medications. Their pensions are less secure, and have flipped from majority guaranteed benefit to guaranteed contribution, shifting the risk of an adequate retirement benefit from their employer to themselves and their family.

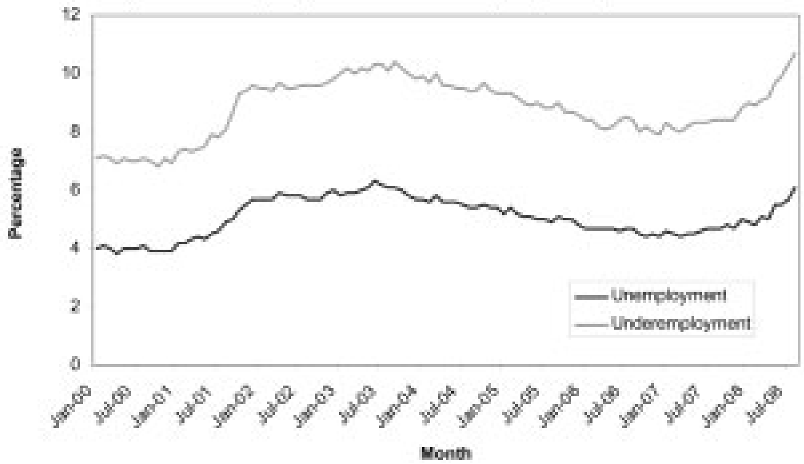
Some aspects of jobs have also become less secure. Over the longer term, job tenure has declined, especially for men. More recently, job creation was particularly weak, and this had led to numerous problems in the job market. The share of persons stuck in long-term unemployment—at least six months—was much higher on average in the 2000s than in earlier periods. For the first time on record for a business cycle, the share of adult population at work never regained its prior peak, meaning employment rates were lower at the end of the 2000s business cycle than at the beginning (this analysis assumes that the recession, or at least a labor market recession, began around January of this year).

This testimony briefly outlines some of these points, focusing first on current recessionary conditions, then on recent trends over the 2000s, and finally on longer term trends in compensation, inequality, and other factors contributing to worker insecurity. The testimony concludes with some explanations for why these trends persist and some policy suggestions.

The Current Job Market

As noted, employment has contracted consistently this year, down 605,000 overall and over 700,000 in the private sector (government job creation is less cyclically sensitive). As shown in **Figure 1**, unemployment has risen almost two percentage points since its most recent low in early 2007, and underemployment, a more comprehensive measure of the extent to which workers and potential workers are underutilized, is already higher than at any point in the last recession or jobless recovery that followed.

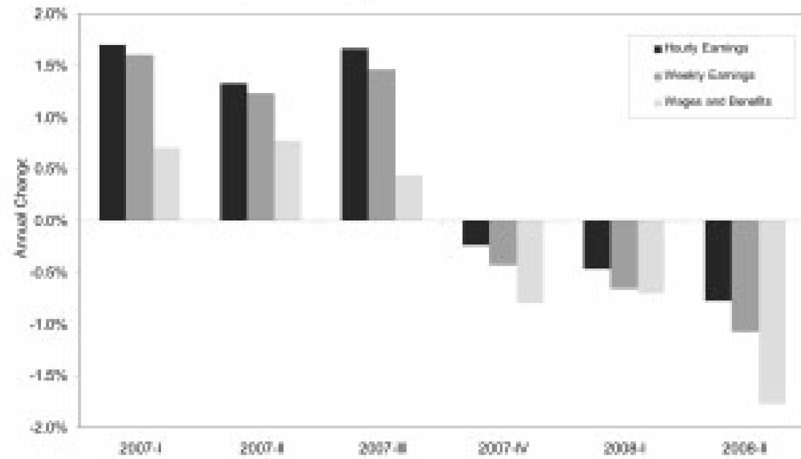
Figure 1. Unemployment and underemployment, 2000-2008



This last point regarding underemployment bears more examination. Apart from the rise in the number of unemployed persons, the largest contributor to the growth of the underemployment rate in recent months is the increase in so-called "involuntary part-time workers," persons working part-time who would prefer full-time jobs. In August, there were 5.7 million of these underemployed persons, up 1.2 million from one year ago.

One symptom of this weakening job market, in tandem with the recent, commodity-driven acceleration in inflation, is reduced earnings. **Figure 2** shows annual changes in inflation-adjusted earnings, including hourly and weekly earnings for production and non-supervisory workers, as well as an average, economy wide measure of total compensation: wages plus benefits. All three measures have been falling for the last few quarters, with the broadest measure, average hourly compensation for all workers, falling most quickly. Note also that weekly earnings are falling faster than hourly earnings, due to the decline in average hours of work.

Figure 2. Real paychecks falling in the downturn



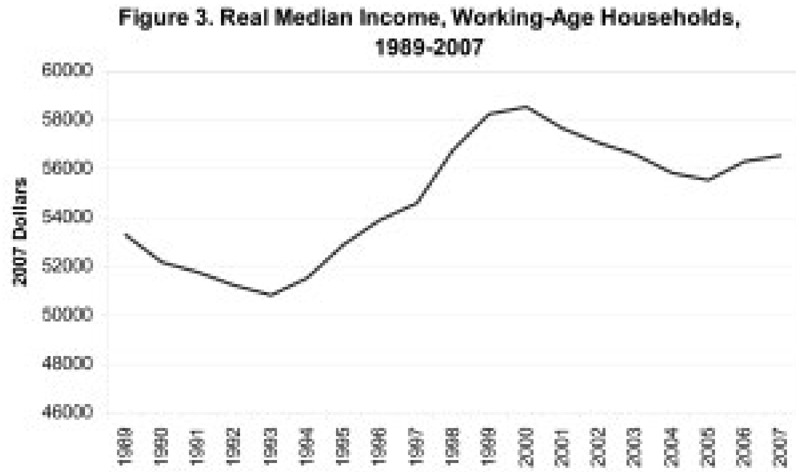
Source: Author's analysis of BLS data

Though inflation may grow more slowly in coming months, as gas prices have come down off their recent peaks, these labor market conditions are not expected to improve in the short term. Most forecasts are for unemployment to continue to increase and remain elevated in recessionary territory through next year.

These shorter-term difficulties are characteristic of recession. What is more unusual is that the job market of the 2000s, i.e., over the expansion, was characterized by many of these same trends: job and wage growth was historically slow, and incomes of middle-income, ended up significantly lower at the end of the cycle than at the beginning.

The 2000s: Weak Job, Wage, and Income Growth Amidst Strong Productivity

As noted, though these difficulties have deepened in the downturn, the business cycle that appears to have ended late last year was uniquely unrewarding to working families, especially considering their contributions to productivity growth. For example, **Figure 3** shows the trend in the real median income of working-age households—those headed by someone less than 65—1989-2007. Their median income, after adjusting for inflation, fell $2,000 between 2000 and 2007, from about $58,500 to $56,500 (2007 dollars).

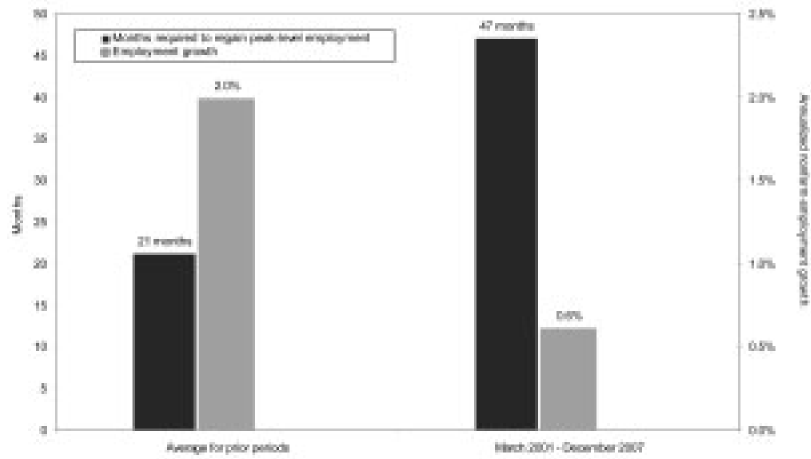


The trend was very different in the 1990s. After declining in the recession (and the jobless recovery that followed), the median income of working-age households reversed course and rose consistently through 2000. Over the 1990s (1989-2000), it was up almost 10%, or about $5,200. Had this growth rate prevailed in the 2000s, the median income of working age households would have gone up $3,600 instead of falling $2,000.

One key factor behind this result, and it is an important source of worker insecurity, is the historically weak job growth over the 2000s business cycle, the weakest on record going back to the 1940s. When employment growth is weak, there tends to be less pressure in the job market such that employers need to bid wage offers up to get and keep the workers they need. This lack of worker bargaining power shows up as weak wage and income growth for working families, even amidst strong productivity growth and relatively low unemployment.

Figure 4 plots the annual growth in jobs in this cycle versus past cycles and shows that the rate in the 2000s was less than one-third the average rate. In terms of numbers of jobs, compared to the 1990s, payrolls expanded by about 23 million; in the 2000s, payrolls grew by less than 6 million.

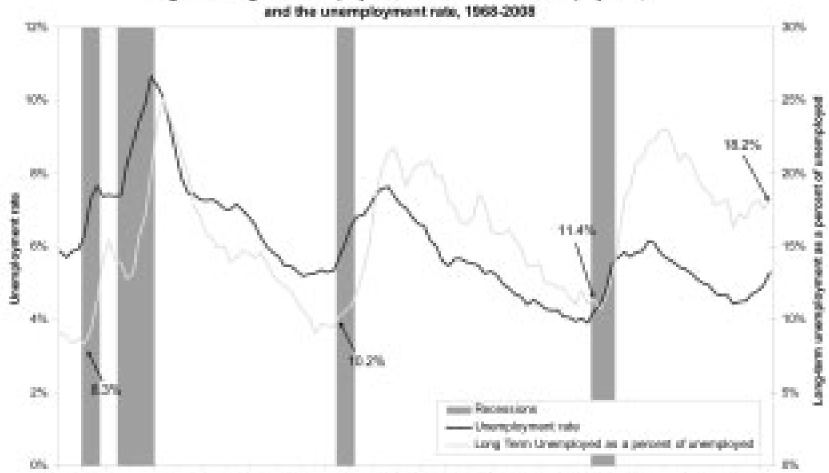
Figure 4. Job growth: 2000s cycle versus average of past cycles



Source: Authors' analysis of BLS data.

A symptom of weak job growth is that once workers lose their jobs, their unemployment spells can be quite long, another factor contributing to weak income growth and increased worker insecurity. This tendency has also been exacerbated by the aging of the workforce, since older workers tend to be choosier about their job offers and thus have longer spells of unemployment. The result, as shown in **Figure 5**, is a historically large gap between unemployment and the share of the "long-term" unemployed: persons who have been jobless for at least six months.

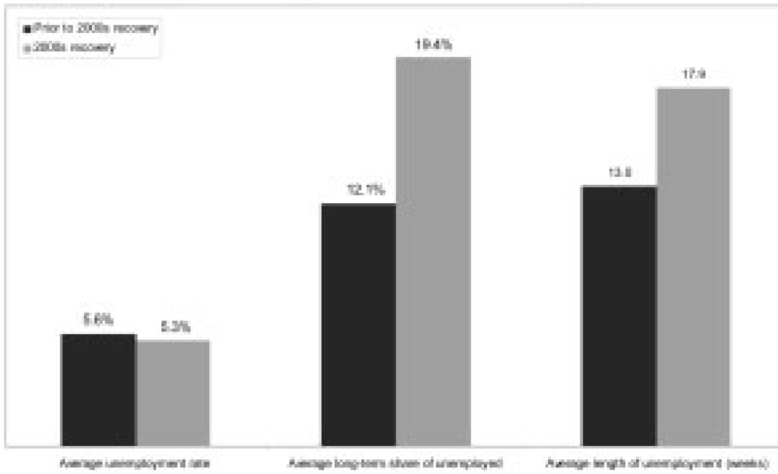
Figure 5. Long-term unemployment as a share of total unemployment, and the unemployment rate, 1968-2008



Source: Authors' analysis of BLS (2008c) data.

This increase in the share unemployed persons who are mired in long-term unemployment is especially notable given the secular decline in the unemployment rate. A lower jobless rate suggests a tighter job market, which might lead us to expect that unemployment spells would be diminished. **Figure 6** shows that this is not the case: though the average unemployment rate was slightly lower in the 2000s cycle relative to prior cycles, spells of unemployment were considerably longer. About seven percentage points more of the unemployed were long-termers over the 2000s cycle, and they were, on average, unemployed for about five more weeks.

Figure 6. Unemployment and the 2000s recovery period



Source: Authors' analysis of BLS (2008c) data.

The insecurity bred by this longer-term unemployment was not confined to marginal, less educated, or younger workers. Older and college-educated persons increased as a share of the labor force over these years, but as **Table 1** shows, they also made up a larger share of both the unemployed and the long-term unemployed.

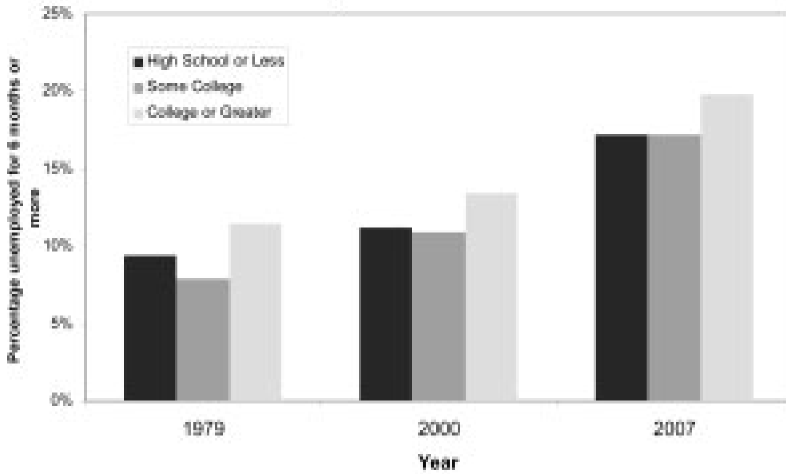
Table 1. Shares of unemployment and long-term unemployment, 2000 and 2007

	2000			2007		
	Unemp	Long-term Unemp	Percentage-point difference	Unemp	Long-term Unemp	Percentage-point difference
All groups	100%	100%	0.0	100%	100%	0.0
Age						
16-24	36.9%	23.6%	-13.3	33.1%	22.5%	-10.6
25-44	41.1	43.1	2.0	39.1	40.8	1.7
45+	21.9	33.2	11.3	27.8	36.7	8.9
Education						
High school or less	65.8%	64.7%	-1.07	60.8%	59.5%	-1.3
Some college	22.1	21.1	-1.1	24.8	24.3	-0.5
College degree or more	12.1	14.2	2.2	14.4	16.2	1.8

Source: Authors' analysis of BLS (2008c) data.

Part of this is a composition effect of the aging labor force, but the tendency to experience long-term unemployment also increased within these groups. **Figure 7** shows the increased likelihood of long-term unemployment by education and age. As time has progressed, more highly educated and older workers are more likely to experience longer spells of joblessness.

Figure 7. Long-term unemployment as a share of total unemployment, by education level

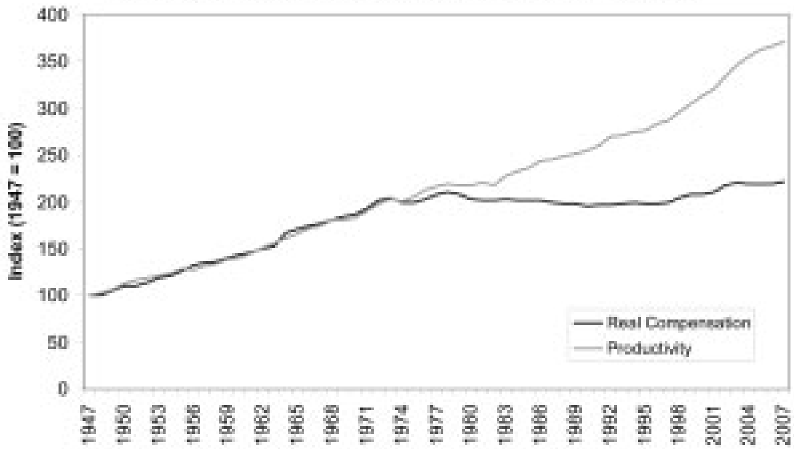


Longer Term Evidence

Earlier, it was argued that productivity and earnings diverged significantly in recent years, but this is not a recent phenomenon. **Figure 8** plots the average compensation—wages plus benefits—of non-managers in services and blue-collar workers in manufacturing, against productivity growth.[1] Between the mid-1940s and the mid-1970s, the real compensation of these workers and the productivity of the American workforce grew in lockstep, both doubling.

[1] This series is derived by scaling up the BLS production, non-supervisory wage series by the ratio of compensation to wages from the NIPA accounts. It implicitly assigns the average compensation to this lower-wage work force—these workers roughly omit the top 20% of the workforce—a "conservative" assumption in the sense that it is likely an overestimate of their average benefits package.

Figure 8. Real compensation and productivity indices

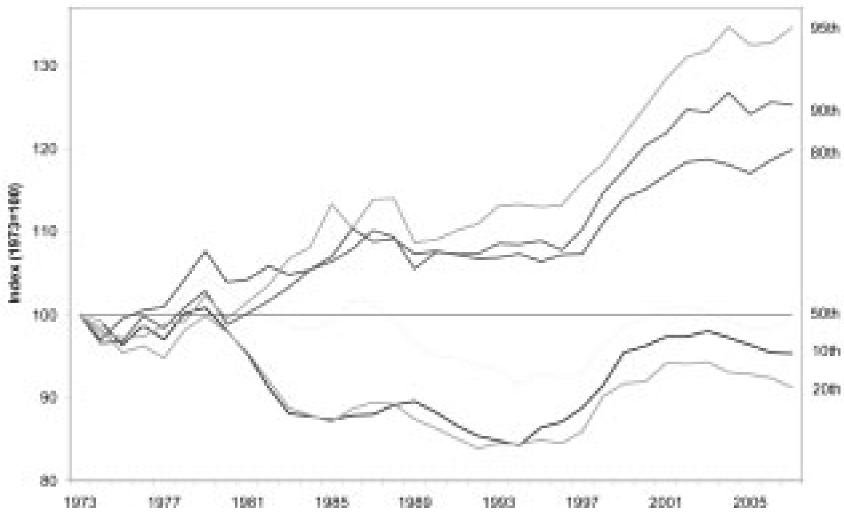


Since the late 1970s, however, the two trends in the figure diverge. Real compensation grew only 7% from 1979 to 2007, while productivity grew 70%. More recently, the gap has grown particularly wide, as productivity grew more quickly in the 2000s business cycle than in either that of the 1980s or 1990s, while average compensation of these workers was flat.

This split between economic growth and the labor market earnings of working class persons is at the heart of today's economic insecurity. Of course, in polling and the popular debate, that insecurity often is associated with the difficulty that working families have making their budgets: the "middle-class squeeze." But the squeeze itself is intimately related to the previous figure, wherein too few workers can count on their contribution to the economy's growth to boost their own living standards.

Figures 9 and 10 show a broader set of wage trends which underscore these points by showing the disparate paths of real wages for men and women in different wage percentiles since 1973. For both genders, wages "fan out" significantly in an unequal pattern. For men, median (50th percentile) wages are essentially unchanged over these years, while lower wage men lost ground. Women's wages grew for each group, though much faster at the higher end of the wage scale.

Figure 9. Changes in real hourly wages for men by wage percentile, 1973-2007



Source: Authors' analysis

Figure 10. Changes in real hourly wages for women by wage percentile, 1973-2007

Source: Authors' analysis

What has caused this split between wages or compensation and productivity, and the accompanying inequality patterns captured in the previous two figures? Various explanations have been offered, and I offer only short summaries here.

- Higher returns to education: This argument maintains that since the late 1970s, the benefits of growth have flowed disproportionately to those with higher levels of education. There is some evidence to support this, but it is by no means a complete explanation. Advocates have failed to show that employers' skill demands accelerated over this period, and more recently, the college wage premium has been relatively flat, implying that inequality is being driven by other forces. Finally, we note that the real wages of college-educated workers have been quite flat in recent years, up only 2.5%, 2000-07.

- Diminished bargaining power: Less collective bargaining has contributed to inequality. Research on unionization's impact on wages is quite clear on the point that less union density in the workforce has contributed to the growth in inequality.

- Increased trade: The increase in traded goods, in tandem with large and persistent trade deficits, has been identified as another source of increased inequality, stemming partly from the loss of manufacturing employment. This is especially true in the case of trade between our economy and developing economies, like China, that have very large low-wage workforces relative to the United States.

- Absence of full employment: Periods of very tight job markets have been associated with a more equitable distribution of earnings, as such periods boost the bargaining power of less-advantaged workers who would otherwise be in excess supply, face discrimination, or simply have less leverage than other groups of workers. As an example of this effect, note that the late 1990s, when unemployment ultimately fell below 4% for the first time in 30 years, shows essentially the only hourly wage growth for low-wage workers in the prior two figures.

Other longer-term trends contributing to worker insecurity include:[2]

- the long-term shift from pensions that guarantee a fixed payout to variable pensions (i.e., defined benefit to defined contribution), a clear shift in the locus of risk from the firm to the worker;

- the secular erosion of employer-provided health care coverage;

- the long-term decline in men's job tenure, down by 1½ years for men aged 34-44 and 2 years for men age 45-54 between 1973 and 2006; the share of men with 10 years on the job fell 10 percentage points over these years for men in these age groups; the share with 20 years on the job fell about the same amount.

[2] These facts are all taken from Mishel et al, 2008.

Policy Actions to Enhance Worker Security

First, Do No Harm: It is important not to exacerbate the problems documented above with policies that contribute to weak job and wage growth and promote greater inequality. For example, changes since 2001 to the Federal tax code have worsened distributional outcomes by disproportionately lowering the tax liabilities of the wealthiest families.

Such regressive tax policies hurt most families both directly and indirectly. Directly, they exacerbate the already excessive inequalities in market outcomes (i.e., the pretax distribution). Indirectly, they diminish revenues such that the Federal government is less able to perform needed functions (without borrowing), many of which, like safety net policies, disproportionately benefit the least well off. While the direct impact of the regressive tax cuts has been extensively measured and is well-appreciated, this indirect effect—the defunding of public services that boost economic security of the least advantaged—is also important and problematic.

Beyond tax policy, other policy "sins of omission" have contributed to higher inequality. We have failed to strengthen workers' legal ability to organize, gutted investments in their skills and training, under-invested in our public infrastructure, or stood by as the employer-based systems of health coverage and pensions slowly unravel.

Bargaining Power: As noted, the diminished bargaining power of many workers is a key factor in the wage/productivity split and the insecurity problem. Historically, a broad set of policies and norms, including unions, minimum wages, defined-benefits pensions, and health care provisions, helped to lift workers' ability to bargain and were thus associated with more broadly shared prosperity.

Unions play a key role in precisely this area. Their decline has been partly a mechanical function of the loss of jobs in unionized industries, like manufacturing, but the more important explanation is the very unbalanced playing field on which unions must try to gain a foothold. In fact, Freeman (2007) argues that slightly more than half of the non-union workforce would like some type of union representation, a finding that is not particularly surprising given the divergence of incomes and productivity shown above.

The problem here is that the legal and institutional forces that have historically tried to balance the power of anti-union employers and their proxies have significantly deteriorated in recent decades, as described by Shaiken (2007). One legislative solution is the Employee Free Choice Act (EFCA), a bill that helps to restore the right to organize in the workplace. A central component of EFCA is so-called majority sign-up or "card-check," which gives the members of a workplace the ability to certify a union once a majority of workers sign authorizations in favor the union. The law also puts much needed teeth back into labor law by ratcheting up the penalties for those who violate the rights of workers trying to organize or negotiate a contract.

Macro-Economic Conditions: Full employment—a tight match between labor supply and labor demand—is another important criterion for reducing the gap between overall growth and living standards of working families. Historically, very low unemployment rates have also been a key contributor to workers' bargaining power, ensuring that employers needed to bid compensation

up to get and keep the workers they needed in order to meet the demand for their goods and services.

The policy levers here, at least in normal times, i.e. outside of recessions, rest mainly with the Federal Reserve, but Congress can also play an important role that I discuss below under the rubric of investment policy.

Safety Nets: Historically, working families in our country have depended on employers to provide health care and pensions, but as this system unravels, a vibrant debate regarding the reform of our health care system is underway. The details of the debate are beyond my scope here, but it is especially urgent given the realization that the rate of increase in health spending in both the public and private sector is unsustainable.

I will, however, note that the achievement of guaranteed, affordable health care would play a major role in offsetting the insecurity that working families face around this issue. For details, interested parties should consult EPI's *Agenda for Shared Prosperity*, an initiative by our institute to elaborate, in some detail, the best plans for meeting the challenges of health care and pension reform.

Another safety net issue in need of attention is Unemployment Insurance. Given the changes in the structure of work and the demography of the workforce, our nation's UI system is also in need of reform and modernization. The Unemployment Insurance Modernization Act, already passed by this chamber, would make such changes, including providing benefits both to part-time workers and to those who leave their jobs for compelling family reasons. The bill also accounts for shorter job tenures by considering a worker's most recent work history when determining eligibility for UI benefits.

Finally, lower-wage workers would benefit from an expansion of so-called work supports: programs that enhance or subsidize the incomes of low-income working families, by either subsidizing the wages (the Earned Income Tax Credit), offsetting their expenses (child, health care, and housing subsidies, for example), or supporting their income (e.g., the child tax credit).

Investments in Human and Physical Capital: Economists widely agree that it is critical to invest in the skills, not only of today's workforce, but of the workforce of tomorrow. Unfortunately, our budgetary priorities have been moving in the opposite direction, as federal budgets over the past few decades have shortchanged training programs. Eisenbrey (2007), for example, shows that Federal investment in employment services and training is down about $1 billion in real terms since 1986 (from about $6 to $5 billion, 2006 dollars) even while the workforce has grown in size considerably over those years. The result is a decline in the budget for worker training and services from $63 to $35 per worker, in 2006 dollars.

According to the Coalition for Human Needs (2008) analysis of Congressional appropriations for a number of training programs, real declines have occurred in a number of job training programs between FY05 and FY08. Spending on both adult (-12%) and youth training (-14%) through the Workforce Investment Act are down, as are dislocated worker training (-9%) and adult basic education (-12%).

Along with human capital, investments in public physical capital should also be considered, and particularly given today's weak labor market, such investments should be considered in the context of macroeconomic stimulus.

Three facts motivate this contention. First, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of macro-economic stimulus and labor demand—the creation of new, and often high quality jobs—which is clearly lacking from our current labor market.

Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, which by definition cannot capture the returns on investments in public goods such as roads, bridges, waste systems, water systems, schools, libraries, and parks. Three, the growing problem of climate change demands action, and making these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources affords us an opportunity to address this problem while stimulating the economy.

These are admittedly brief outlines of only a few steps that could help to accomplish the critical goal of reconnecting the living standards of working families to the growth in the economy, especially given that they themselves are responsible for generating much of that growth. At the same time, policy makers can help to significantly reduce the insecurity generated by unfavorable developments in the economy by strengthening safety nets and social insurance, especially in the areas of health care and pension coverage. I again applaud this committee for taking up these issues. Without your attention, and that of your colleagues, these insecurities are much more likely to deepen than disappear.

I thank Tobin Marcus for excellent research assistance, and Heidi Shierholz and Larry Mishel, my co-authors of State of Working America, 2008/09, from which much of the data in this testimony are drawn.

Chairman MCDERMOTT. Thank you very much. I neglected to point the clock out to those people who are going to testify here. We would like you to hold your comments to 5 minutes, so that we can have time for discussion.

Michael Ettlinger is the vice president for economic policy from the Center for American Progress.

Mr. Ettlinger.

STATEMENT OF MICHAEL ETTLINGER, VICE PRESIDENT FOR ECONOMIC POLICY, CENTER FOR AMERICAN PROGRESS

Mr. ETTLINGER. Chairman McDermott, Mr. Weller, Members of the Subcommittee, thank you very much for the opportunity to appear today to discuss the challenges facing American workers.

We are in a period that is distinguishable from any in the post-war era. It's distinguishable statistically, but it's also distinguishable in that we are now headed in the wrong direction in so many areas that are critical to working Americans. Wages are stagnant or declining, costs are rising, access to health care is declining, retirement security is in decline. Most recently, the value of the family nest egg, in the form of homes, has fallen dramatically.

This period is also different than others in that the public, while holding on to optimism for themselves, doesn't see these problems being addressed at the societal level, or for their children.

I won't delve into the areas that Dr. Bernstein has covered so well, but I will focus on some of the other challenges facing working Americans.

One of these challenges is absolutely the rising costs in transportation, utilities, and food that are hitting working families especially hard. Health care, of course, is also a major concern. Costs are rising, and the share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 59.3 percent in 2007. Last year, 45.7 million people were uninsured.

There is the saying that if you have your health, you have everything. I think a corollary may be that if you don't have health insurance, you don't have much. This is a huge source of stress for working Americans, a huge factor in people's choice in jobs, a substantial constraint on people changing jobs to seek new opportunities, or to set off on their own to start new businesses, all to the detriment, not just of the individuals themselves, but also to the economy, as a whole.

Preparation for retirement is also a problem. Only 43 percent of private sector workers have an employer-sponsored retirement plan, either a traditional pension or a retirement savings plan, which is down from 50 percent in 2000. Many American workers also lack retirement sufficiency. The median 401(k) balance for workers nearing retirement is only $60,000.

All of these things manifest for working Americans and reduce quality of life and security. A Center for American Progress study on middle class security found, among other similar findings, that the percentage of families having 3 months' worth of income in financial wealth, which is a good measure of their cushion against unexpected expenses or income loss, that percentage declined from 39 percent in 2000 to 29 percent in 2007.

The public, not surprisingly, is aware that there is a problem. A Pew Research Center poll found that 69 percent of people said that, compared to 10 years ago, it's easier to fall behind today. Just 11 percent thinks it's harder to fall behind. A Lake Research poll found that when asked about the next generation, only 9 percent of voters say it will be easier for them to achieve the American dream.

So, what to do? One thing that is clear is that whatever we do, it should be something different than what we have been doing, as the situation has worsened in recent years. In particular, tax cuts for corporations and the well-off, scrimping on public investment and slipshod regulatory enforcement are problems, not solutions.

At the Center for American Progress, we have a plan called "Progressive Growth." It has many components. Among them are transforming to a low carbon economy, which is critical to bringing energy spending under control; health care reform, to make health care more affordable and more broadly available; labor law and education reform. We are also developing a universal 401(k) plan to address retirement security.

My final point is this. The conditions workers face are everyone's problems, from investors to shop keepers to retirees. Attempts to

solve our economic challenges without directly addressing the conditions of working Americans will fail.

The fact is that investments in people are investments that pay off for the economy, as a whole. When we have millions who are marginalized from the economy, millions who can't afford to take risks with new jobs and new businesses, millions who can only afford to spend enough to just get by, we lose innovative energy, we lose the participation of millions of people who could contribute. We lose customers for our business, we lose a thriving middle class that is a must for driving growth and national prosperity. Thank you.

[The statement of Mr. Ettlinger follows:]

Statement of Michael Ettlinger, Vice President for Economic Policy, Center for American Progress

Chairman McDermitt, Mr. Weller, Members of the Committee, thank you for the opportunity to appear before this committee on the subject of the challenges facing working Americans. That American workers are indeed facing challenges is difficult to deny. This isn't the great depression but it is a period distinguishable from any in the post-war era. It's statistically distinguishable by a number of measures, but it's also distinguishable beyond each of these measures in two important ways. The first is simply that the challenges are coming on so many fronts. Things have gotten worse before, but we are now headed in the wrong direction, or at risk of heading in the wrong direction, in several areas that are critical to working Americans. Wages are stagnant or declining, costs are rising, access to health care is declining, retirement security is in decline—and most recently, the value of the family nest-egg in the form of their homes has fallen dramatically. The second way today is different is that the public, while holding to optimism for themselves, doesn't see these problems being addressed at the societal level or for their children.

How bad are things? Before I get into the statistics, there's an important, admittedly fairly obvious, point I'd like to make about interpreting them. In general, what one hears in this sort of presentation are a lot of averages and medians—single numbers to represent a very wide set of experiences by real people. Of course, however, if I tell you that as of 2007 real median household income was 0.8 percent lower than in 1999—that doesn't sound like a good thing—after all, there's an expectation that incomes rise in this country, not fall. But that number also has the feel of things not changing, that the situation might not be ideal, but, really, what's going on isn't imposing any significant hardships—0.8 percent doesn't seem like that much. In fact, however, what I want to point out is that if an average or median is stagnant or falling, that means that while some are getting ahead, many, many are falling behind—that if a median income is falling 0.8 percent then millions of Americans are losing 5 percent, 10 percent, or more. So, if we're defining our economic aspirations statistically, they should be ambitious enough that they bring most people along, not just the fanciful median or average working person. And stagnant median or average incomes don't do that.

Falling incomes

To continue on the subject of income, as of 2007, real median household income was, indeed, 0.8 percent lower than its 1999 peak. Real hourly earnings are now down 2.5 percent from a year ago, and the prospects for turning this trend around in 2008 are slim to none. Weekly wages have declined by 0.3 percent since the start of the current business cycle in March 2001. One can pick different periods and come to the conclusion that incomes are up a little or down a little—but the bottom line is that they haven't risen in any meaningful sense since the 1990s. That is bad enough on its face, but it's worse when put into context. First, as I said, when the average or median is stagnant, it means that, while some are getting ahead, many, many Americans who are working hard and playing by the rules are falling behind. Second, it's clear that falling or stagnant incomes and wages are far from the only challenges facing working people.

Rising costs

Among those challenges, costs have gone up in ways that make even *inflation-adjusted* income comparisons understate the problem. The costs of necessities have been particularly hard hit. It's a sign of the times that a national average price for

regular unleaded gasoline of 3.779 in August is seen as progress.[1] It is hard to overstate the burden higher fuel prices are putting on working Americans—gasoline prices rose by 44.6 percent between July 2007 and July 2008, in inflation-adjusted terms, and the increase since March 2001 is 258.8 percent.[2] Fuels and utilities cost 16.1 percent more in July 2008 than a year before and are up 52.9 percent since March 2001.

Transportation costs in general have been hit hard. In July they were 13.0 percent higher than they were in July 2007 and 35.8 percent greater than they were in March 2001. The grocers bill is also not a pretty story. Food prices have increased 7.1 percent from July 2007 to July 2008 and by 25.6 percent since March 2001.

Alarmingly for the long-term financial health of the middle class and our national economic prospects, college tuition increased by 6.3 percent from July 2007 to July 2008. This puts college tuition at 67.9 percent more than in March 2001.

Health care

Health care is, of course, a story all its own. Of all the necessities, health care has, for the longest time, been rising in cost and, for many, it has become unavailable. Recently, costs associated with medical care increased by 3.5 percent from July 2007 to July 2008 and by 35.1 percent since March 2001. But whatever the cost, access has become a huge challenge.

The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 59.3 percent in 2007.[3] In 2007, 45.7 million were uninsured, 7.2 million more than in 2000.[4] In 2003, almost one-fifth of American families were spending more than 10 percent of their disposable income on health care.[5] And more than one-quarter of adults reported not obtaining treatment or prescription drugs because of cost.

I probably don't have to elaborate at length as to how this is playing out in real people's actual lives. There's the saying that "if you have your health you have everything." A corollary may be that if you don't have health insurance you don't have anything. If you've ever cared for someone who couldn't get adequate treatment because they couldn't obtain health coverage for an illness you know what I mean—and at this point more and more of us are seeing that or experiencing it. This is a huge source of stress for working Americans, a huge factor in people's choice in jobs, a substantial constraint on people changing jobs to seek new opportunities or to set off on their own—all to the detriment of not just the individuals involved but the economy as a whole.

Pensions

Another important way in which the conditions of working people are declining is in their preparation for retirement. Only 43.2 percent of private-sector workers had an employer-sponsored retirement plan, either a traditional pension or a retirement savings plan, in 2006, the last year for which data are available.[6] This is the lowest share in more than a decade and a substantial drop from 50.0 percent in 2000, the last peak. According to Center for American Progress research, 8 million people, or one in four workers with defined-benefit pensions, have seen their benefits significantly cut since 2000.[7]

In addition, a growing number of workers are saving with defined-contribution retirement savings plans instead of defined benefit plans. This can leave workers exposed to a number of new risks—as declines in the stock market are now so amply demonstrating. These adverse trends have meant that a growing number of families will have to rely solely on Social Security as source of retirement income.[8]

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[1] Energy Information Agency, "Monthly Retail and Gasoline and Diesel Prices," last updated September 8, 2008, available at http://tonto.eia.doe.gov/dnav/pet/pet_pri_gnd_dcus_nus_m.htm.

[2] Authors' calculations based on Energy Information Agency, "Monthly Retail and Gasoline and Diesel Prices," last updated September 8, 2008, available at http://tonto.eia.doe.gov/dnav/pet/pet_pri_gnd_dcus_nus_m.htm. and U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," last updated August 14, 2008. Note: All price data in this section are the author's calculations based on U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," last updated August 14, 2008.

[3] Christian Weller "Economic Snapshot for September 2008," Center for American Progress, available at http://www.americanprogress.org/issues/2008/09/pdf/sep08_econ_snapshot.pdf.

[4] http://www.epi.org/content.cfm/webfeatures_econindicators_income_20080826_health.

[5] http://jama.ama-assn.org/cgi/content/abstract/296/22/2712

[6] Patrick Purcell, "Pension Sponsorship and Participation: Summary of Recent Trends," CRS Report RL30122, (Washington, DC: Library of Congress, Congressional Research Service, 2007).

[7] David Madland, "A Fragile Equilibrium: The Past, Present, and Future of Private Pensions, Contingencies Magazine," forthcoming, November 2008.

[8] Dean Baker and David Rosnick, "The Housing Crash and the Retirement Prospects of Late Baby Boomers," (Washington, DC: Center for Economic and Policy Research, 2008).

Even those workers who are in retirement plans often lack retirement sufficiency. As defined-benefit plans have become less and less prevalent, workers are increasingly finding themselves doing more of the heavy lifting in planning for their retirement as well as bearing the bulk of the risk involved in having a defined-contribution plan.[9] Companies typically contribute about 7 percent of payroll to support DB plans, but only about 3 percent for 401(k) plans.[10]

While the right-kind of 401(k) plan can help Americans retire with dignity, too many plans have proven inadequate to the job. The median 401(k) balance for workers nearing retirement—those ages 55 to 64—is only around $60,000.[11] While $60,000 is a significant sum, it is not sufficient for retirement security, and can only purchase an annuity that pays approximately $400 per month.

Home values

The problems facing working Americans are, of course, compounded by the housing crisis. The most valuable asset that most middle-class asset-holding families have has just seen its value fall precipitously. Data from the Federal Reserve, for example, show that home equity relative to income dropped by 5.0 percentage points by March 2008, compared to a quarter earlier, the largest such drop on record.

Standard of living and security

All of this manifests in working Americans' lives in a multiple ways. Obviously with stagnant incomes and rising prices, people's quality of life declines. If more of one's income is going into a gas tank less of it's going to dinner out and a movie. It is also reflected in security. A recent study by the Center for American Progress measured families' ability to weather different types of financial emergencies. The most general measure used was simply the percentage of families having three months worth of income in financial wealth. That declined from a peak in 2000 of 39.4 percent to 29.4 percent in 2007. Other indicators were whether a family can cope with the cost of a medical emergency—33.9 percent could in 2007, down from a high of 44.4 percent in 1999. The share of families able to keep pace during a typical period of unemployment spell fell from 51 percent in 2000 to 44.1 percent in 2007.

It's not a secret

The public, not surprisingly, is aware of the problem. A Pew Research Center poll conducted from Jan. 24 through Feb. 19, 2008 found the following:

- Nearly eight in ten (79 percent) respondents said that it is more difficult now than five years ago for people in the middle class to maintain their standard of living. Only 12 percent said that it had become less difficult.
- Sixty-nine percent said that, compared to 10 years ago, it's easier to fall behind today. Just 11 percent think it is harder to fall behind.
- A majority of Americans say that in the past five years, they either haven't moved forward in life (25 percent) or have fallen backward (31 percent). This is the most downbeat short-term assessment of personal progress in nearly half a century of polling by the Pew Research Center and the Gallup organization.

Furthermore, a September 2007 Lake Research Partners/Change to Win poll found these results: [12]

- Seventy percent of voters say it is getting harder to achieve the American Dream, and only 8 percent say it is getting easier, with 21 percent saying it is the same.
- When asked about the next generation, only 9 percent of voters say it will be easier for them to achieve the American Dream.

The reason for the public's gloomy view of the present is, of course, the reality they see. Their concern for the next generation speaks, however, to a disillusionment with the policies being pursued to deal with these challenges

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[9] Christian E. Weller, "Model Retirement Savings: How Public Sector Retirement Plans Provide Adequate Retirement Savings in an Efficient and Sustainable Way," Hearing before the Joint Economic Committee, 110 Cong, 1 sess., (July 10, 2008).

[10] Alicia Munnell and Annika Sunden, "401(k) Plans Are Still Coming Up Short" (Center for Retirement Research at Boston College Issue Brief, No. 43: Boston, MA, March 2006).

[11] Vanguard Institutional Investor Group, "How America Saves 2007: A Report on Vanguard 2006 Defined Contribution Plan Data" (The Vanguard Group, Inc, Valley Forge, PA: 2007).

[12] "The American Dream and the 2008 Election: Voters looking for leadership to restore the Dream," (PowerPoint presented by Celinda Lake, Lake Research Partners,) (Washington, DC: Change to Win, September 25, 2007).

Progressive growth

With the laundry list of problems we face, I'm reminded of the Bette Davis quote that "old age isn't for sissies." These days, "governing isn't for sissies" either. But that begs the question—what needs to be done. It's said that the definition of insanity is doing the same thing over and over again and expecting a different result. That suggests that whatever we do, it should be something different than what we've been doing as the situation has worsened for working Americans over the last few years.

At the Center for American Progress we have a plan called Progressive Growth—it has many components, including transforming our economy to a low-carbon economy, which is critical to bringing under control how much working Americans spend on energy, and health care reform to make health care more affordable and more broadly available. One more narrowly targeted element is a plan we are developing to address retirement security through a universal 401(k) plan which has as key components:

- portability from job-to-job
- incentives for employers to contribute
- subsidies targeted at low- and middle-income workers

The challenges of the American worker are America's challenges

The conditions workers face are not, of course, their problem alone. Policies that attempt to solve our economic challenges without addressing the conditions of the middle-class are doomed to failure. In the long run the hedge fund manager and the corporate CEO do not succeed unless there are businesses profiting from working Americans. The direction this country has been heading is a direction away from a hard-working, skilled, innovative workforce to a workforce so constrained by the challenges of just getting by that they, in fact, just get by. That is not the kind of workforce that moves business and a nation ahead economically. While one can overstate the extent that all our fates are tied together, in recent years such overstatement has been the least of our worries. The failure has been in understating it. The fact is that investments in people are investments that pay off for the economy as a whole. When we have millions who are marginalized from the economy, millions who can't afford to take risks because they can't change jobs because they'll lose health coverage, millions who must limit their lives to spending on what's needed to just get by—we lose innovative energy, we lose the participation of many millions who could contribute greatly, we lose customers for our businesses, we lose a middle class that drives the growth in national prosperity.

That's why it's so critical that moving forward we don't pretend that one class of people can go it on their own without everyone. Spreading the benefits of economic growth isn't just a nice idea—it is, in fact, a key to continued growth. There are many challenges to be faced and we all will fail if they are not faced. The health care challenge must be dealt with—the rising costs are hurting individuals and industry alike. Investing in a low-carbon economy is an absolutely necessity—and the United States wants to be at its forefront, not lagging behind the rest of the world when we could be gaining a competitive advantage. Education and innovation are key linchpins to success in a modern economy. These are a few of the paths forward we need to take to move ahead our economy for the benefit of America's workers and all Americans.

Thank you again for the opportunity to present this testimony.

Chairman MCDERMOTT. Thank you very much. Elizabeth Lower-Basch is the senior policy analyst for the Center for Law and Social Policy.

Ms. Lower-Basch?

STATEMENT OF ELIZABETH LOWER-BASCH, SENIOR POLICY ANALYST, CENTER FOR LAW AND SOCIAL POLICY

Ms. LOWER-BASCH. I am honored by the opportunity to testify here today. I want to thank this Subcommittee for your recognition that American workers and their families are experiencing a time squeeze, as well as a financial squeeze.

I will talk first about: how the demographics of the American workforce have changed; second, the ways the demands of the workplace have increased; and third, the failure of our employment standards to keep up with these changes.

Over the last half-century, the American labor force has grown dramatically. Women now constitute 47 percent of all workers. The workforce has gotten older and more diverse. More mothers are employed, and more fathers are sharing in parental responsibilities. Over one-third of all workers have children under the age of 18, and 85 percent of these working parents do not have an at-home spouse.

In addition, surveys suggest that between one in six and one in three workers are caring for adult relatives.

There is no typical worker any more. We need policies that work for those who need to go back to school to develop new skills and move into better jobs, and for those who are phasing into retirement, as well as for those with care-giving responsibilities.

The nature of the workplace is also changing. Just-in-time scheduling means that firms adjust staffing levels hour by hour. Some workers are forced to work mandatory overtime, while others must remain on call to keep their jobs, but are paid only for the hours when they are needed. As Dr. Bernstein mentioned, in the current recession workers' inability to get enough hours of work to pay their bills is an increasing problem.

Our employment standards have failed to keep up with these changes. The United States is one of the only countries in the world that does not guarantee any form of paid leave for childbirth. While some employers voluntarily step up, about one-third of workers taking family and medical leave receive no pay. More than half of leave takers worry about not having enough money to cover their bills. Only about half of workers are even covered.

Similarly, while many take the ability to stay home with the flu without penalty for granted, in fact, barely half of all workers have any paid sick days. Only one in three can use these days to care for a family member. Without paid time off, workers are more likely to come to work sick, send their children to school or child care sick, and postpone needed medical treatment.

Low wage workers are the most vulnerable, with only about one in three receiving paid sick days, or any pay during family and medical leave. They have the least flexibility and security at work, the least ability to pay for help, and the least ability to afford missing some of their pay.

Even though a working life can now last 45 years or more, prime age workers who left the labor market for just a single year during a 15-year period made about 20 percent less than those who worked every single year, even after adjusting for differences in education and hours.

Similarly, part-time workers often pay dearly for that flexibility in lower wages, lesser access to health insurance and pensions, and limited advancement opportunities.

Too often, public policy also fails part-time workers. In half of the states, workers who are available only for part-time work are ineligible to receive unemployment insurance. Overall, only about one

in eight part-time workers who becomes unemployed receives unemployment benefits.

In conclusion, work-life issues and economic challenges facing American workers are inextricably linked. It is only by increasing their hours of work that American families have gained economic ground over the past 30 years. Without access to paid leave, or the opportunity to adjust one's hours of work, hard won economic progress can be set back by a joyous event, the birth of a child, as well as by a sad one, the major illness of a spouse.

Policies such as establishing minimum floors for paid family leave and paid sick days, ensuring equity for part-time workers, modernizing unemployment insurance, and expanding child care funding is, thus, a matter of basic fairness. Such policies would also be an important step toward breaking a cycle of disinvestment in low-wage workers and supporting economic growth. Thank you for your attention.

[The statement of Ms. Lower-Basch follows:]

Statement of Elizabeth Lower-Basch, Senior Policy Analyst, Center for Law and Social Policy

I am honored by the opportunity to testify here today. I am a senior policy analyst at the Center for Law and Social Policy (CLASP). CLASP is a national nonprofit organization engaged in research, analysis, technical assistance, and advocacy for policies that improve the lives of low-income people. Our work is nonpartisan and based on research and evidence. One of our areas of focus is the quality of jobs available to workers, including work-life issues, and strategies to improve jobs and help workers succeed in all their roles.

I have been asked to complement the data that has been presented on the economic challenges facing American workers with information about how workers are being caught between the demands of their jobs and their responsibilities as family members. I want to thank this Committee for your recognition that workers are experiencing a time squeeze, as well as a financial squeeze, and that both are fundamental to the well-being of American workers and their families.

I will show how the demographics of the American workforce have changed, such that many workers also have caregiving responsibilities. I will also address the ways that the demands of the workplace have increased in our highly competitive 24/7 economy. And I will discuss the failure of our institutions and employment standards to keep up with these changes.

Changing demographics of the American workforce

Over the last half century, the American labor force has grown dramatically, from 62 million workers in 1950 to 152.3 million workers in 2007. As shown in Figure 1, this growth was driven largely by two factors—growth in the working age population due to the baby boom generation, and increases in women's labor force participation rate, which grew from 34 percent in 1950, to 43 percent in 1970, to nearly 60 percent today. Women now constitute 47 percent of all workers. The workforce has also gotten older, on average, and more racially and ethnically diverse.[1]

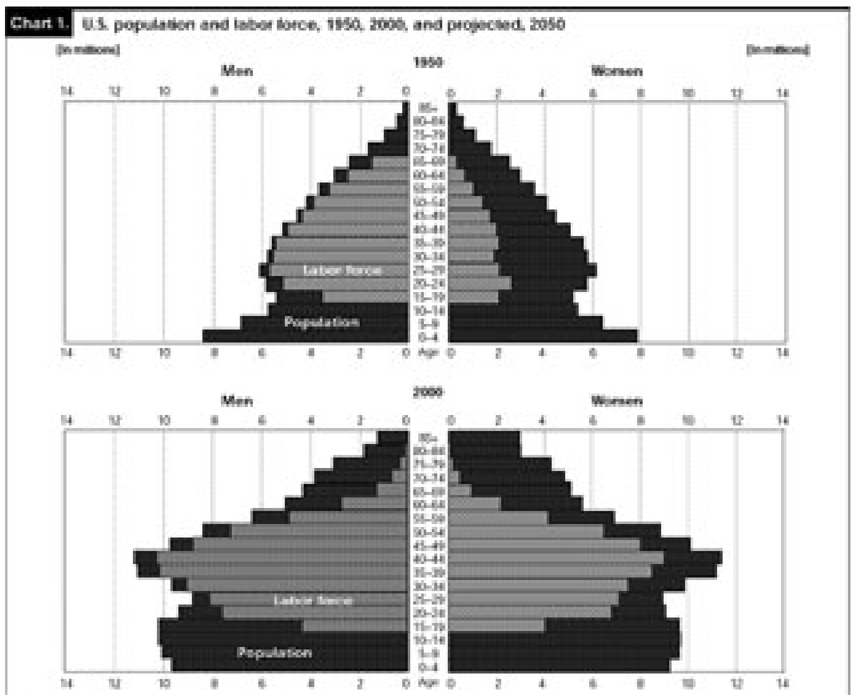
Figure 2 shows that there is no "typical" worker in terms of marital status and parenting role. But workers at all stages of life need work-life flexibility. We often talk about it in terms of parents with young children, but it is also an issue for those caring for elderly parents or spouses, as well as for those who need to go back to school to develop new skills and move into better jobs, but can't afford to stop working, and for those who are nearing retirement but wish to keep working.

With more mothers employed—and more fathers sharing in parental responsibilities—more workers are balancing—or juggling—these two roles. As shown in Figure 2, more than one-third of all workers currently have children under the age of 18. Eighty-five percent of these working parents do not have an at-home spouse to take care of all parenting responsibilities, either because both parents are working

[1] Mitra Toosa, "A Century of Change: the U.S. Labor Force, 1950–2050," *Monthly Labor Review,* May 2002. Marlene A. Lee and Mark Mather, *U.S. Labor Force Trends*. Population Bulletin Vol 63, No 2, 2008.

or because they are single parents.[2] It's worth noting that while fewer than half of workers have minor children at a given time, 80 percent of American women will have children at some point in their life.[3] Most workers will move between different categories at different stages in their lives; they will need work-life policies that allow them to respond appropriately to their changing circumstances.

As the population ages, an increasing share of workers are also responsible for providing care to elderly parents, spouses, or other adult family members. There's a broad range of estimates as to how many, because there is no clear definition of what constitutes caregiving for adults, but surveys suggest that 17 to 35 percent of workers are either currently providing or have recently provided care for an adult family member.[4] While most of these workers are not providing ongoing daily care, the need to respond to a sudden crisis situation can be even more disruptive at work.

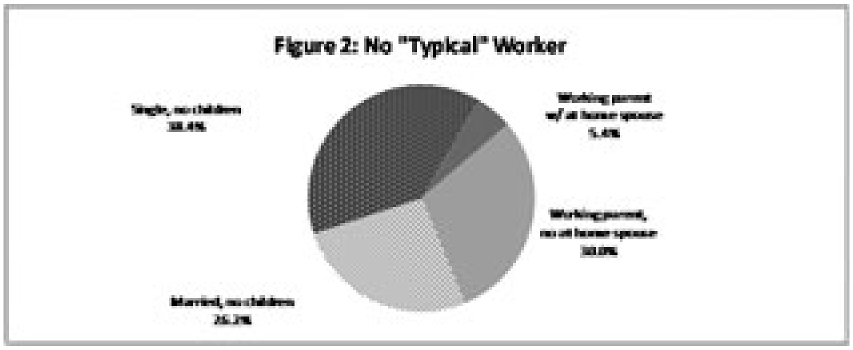


Mitra Toosa, "A century of change: the U.S. labor force, 1950–2050," *Monthly Labor Review*, May 2002.

[2] Author's calculation from unpublished Census tabulation of Current Population Survey data, DSG3–07.

[3] Jane Lawler Dye, *Fertility of American Women: 2006*, P20–558, U.S. Census Bureau, August 2008.

[4] Family Caregiver Alliance, *Selected Caregiver Statistics,* http://www.caregiver.org/caregiver/jsp/content_node.jsp?nodeid=439. National Alliance for Caregiving, *The MetLife Caregiving Cost Study: Productivity Losses to U.S. Businesses*, July 2006. http://www.caregiving.org/data/Caregiver%20Cost%20Study.pdf



Author's analysis of unpublished data from the Current Population Survey, tabulated by the Bureau of Labor Statistics, DSG–03–2007.

And, of course, any worker can get sick, or suffer an injury, causing him or her to miss work. In fact, the majority of workers taking family or medical leave do so as a result of their own health issues, rather than as caregivers.[5]

Changing demands of the workplace

It is not just American families that have changed—the nature of the workplace is also evolving. There is a reason it has become a cliché to say that we live in a 24/7 economy. Consumers expect stores and service providers to be open evenings and weekends, which requires more and more workers to cover those hours. Companies that have invested in expensive capital equipment want it to be in use around the clock.

Thus a recent nationally representative survey of employers found that employees' willingness to work odd or flexible hours mattered "a lot" for 49 percent of employers in their choice of who to hire for non-college jobs. It mattered "not at all" for only 19 percent of employers. Thirty percent of recently hired less-skilled workers frequently work weekend hours, with another 24 percent working them occasionally or sometimes. Fifteen percent work evening shifts, 4 percent night shifts, and 11 percent rotating shifts.[6] Most workers report that they work these shifts for their employers' convenience, not their own. While in some cases workers welcome non-traditional shifts because they allow them to forgo the use of paid child care, such split-shift schedules can put significant strain on workers' marriages and families, as well as on their health.[7]

Even for people who work during traditional work hours, the hours of work have become less predictable. With "just-in-time scheduling," sophisticated computer systems allow firms to fine-tune staffing levels hour by hour, in order to provide peak coverage as needed while minimizing the total payroll. This shifts the cost of inconsistent demands for labor onto the workers, requiring some workers to work mandatory overtime, while keeping others on call but paying them only for the hours in which their labor is needed. Many workers face unpredictable schedules, often provided no more than a few days in advance.

Obviously, this is a challenge for workers with caregiving responsibilities. One study found that retail workers used as many as four different child care providers in the course of a single week in order to cover their varying hours of work. This reduced the stability of the relationships between children and caregivers, and parents were sometimes forced to accept less than ideal care situations in order to cover all the hours needed.[8]

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[5] Jane Waldfogel, "Family and Medical Leave: Evidence from the 2000 Surveys." *Monthly Labor Review*, September 2001. See also Society for Human Resource Management, *An Overview of the 2007 FMLA Survey*, May 2007.

[6] Gregory Acs and Pamela Loprest, Understanding the Demand Side of the Low-Wage Labor Market, The Urban Institute, April 2008.

[7] Kelleen Kaye and David Grey, *The Stress of Balancing Work and Family,* New America Foundation, October 2007.

[8] Julia Henly and Susan Lambert, "Nonstandard Work and Child Care Needs of Low-income Parents." In S.M. Bianchi, L.M., Casper, K.E. Christensen, & R.B King (Eds.), *Workforce/Workplace Mismatch? Work, Family, Health, & Well-being*. Lawrence Erlbaum Associates, Inc. 2005.

In the current recession, workers' inability to get enough hours of work to pay their bills is an increasing problem. As of August, 5.7 million workers reported working part-time hours involuntarily, up 1.2 million from a year before.[9] This figure does *not* include workers who usually work part-time, and are also experiencing reduced hours.

At the other end of the labor market, professionals often find themselves working more and more hours. One in 12 working-age married couples now works a total of more than 100 hours per week—more than twice the percentage that did so in 1970.[10] Electronic devices such as BlackBerries allow greater flexibility for working from remote locations, but also make it harder to avoid workplace demands while trying to meet family responsibilities. Sixty-seven percent of employed parents say they do not have enough time with their children, according to the Families and Work Institute.[11]

U.S. lags behind in recognizing that workers are also caregivers

In spite of these changes, the United States has made only limited progress towards recognizing that many workers are also caregivers.

One of the biggest steps was the enactment of the Family and Medical Leave Act (FMLA) in 1993. This law allows workers to take up to 12 weeks of job-protected unpaid leave in the case of a major medical need, or to provide care to a family member. This law substantially increased workers' access to unpaid leave. However, because this law only applies to companies with 50 or more employees, and because workers must have worked at least 1,250 hours for their employer in the past year, fewer than half of private-sector workers are covered and eligible.[12]

The fact that FMLA does not provide for pay during leave also creates a major hardship for many of the workers who *are* covered by it. The last time use of FMLA was studied in detail, about one-third of those taking leave received no pay, and more than half of leave-takers worried about not having enough money to pay bills. Lack of pay is a particular issue for low-income workers (those with annual family incomes of less than $20,000), of whom more than two-thirds received no pay during their leave.[13] The United States is one of the only countries in the world that does not provide any form of paid leave for childbirth.[14]

Historically, one program that provided a minimal level of income support for poor single mothers during periods of unemployment or caregiving was Aid to Families with Dependent Children, AFDC. In the wake of welfare reform, it is clear that Temporary Assistance for Needy Families (TANF), which replaced AFDC, fills this role to a greatly diminished degree. In 2004, just 3.3 percent of women who had babies during that year received TANF cash assistance, compared to 11.6 percent in 1996.[15] More broadly, HHS calculates that only 42 percent of eligible families received TANF benefits in 2004, down from 84 percent in 1996.[16]

A few states—California, Washington, and New Jersey—have taken an important next step by developing family-leave insurance programs which provide *income replacement* for workers who take family leave. These are important models to consider both for other states and for federal policy. Importantly, because the cost of providing this wage replacement is spread among employees, these policies do not place disproportionate costs on those employers who hire workers who are most likely to need to take family leave.

Another area in which the public policy response has been limited is that of sick days. While millions of workers take it for granted that they can stay home with full pay when the flu strikes, the only places in the U.S. where such protection is guaranteed by law are San Francisco and Washington, D.C. Barely half of all workers (51 percent) have paid sick days, and only one in three can use these days to

[9] Bureau of Labor Statistics, *Employment Situation Summary*, September 5, 2008.
[10] Jerry A. Jacobs and Kathleen Gerson, "Overworked Individuals or Overworked Families? Explaining Trends in Work, Leisure, and Family Time," *Work and Occupations*, Vol. 28 No. 1, February 2001.
[11] James T Bond, Ellen Galinsky and Jeffrey E. Hill. *When Work Works: a Status Report on Workplace Flexibility.* IBM and the Families and Work Institute, 2004.
[12] Wen-Jui Han and Jane Waldfogel. "Parental Leave: The Impact of Recent Legislation on Parents' Leave Taking." *Demography*, Vol 40, No. 1, February 2003.
[13] Waldfogel. "Family and Medical Leave."
[14] Jody Heymann, *Forgotten Families,* Oxford University Press, 2006.
[15] Jane Lawler Dye, *Fertility and Program Participation in the United States: 1996.* Current Population Reports, P70–82. U.S.Census Bureau, 2001 and Jane Lawler Dye, 2008. *Participation of Mothers in Government Assistance Programs: 2004*. Current Population Reports, P70–116. U.S. Census Bureau, 2008.
[16] U.S. Department of Health and Human Services, *Indicators of Welfare Dependence, Annual Report to Congress, 2007.*

care for a sick family member.[17] And access to this benefit varies greatly by income, as only 39 percent of low-wage, low-income workers receive any paid time off that they can use for a personal illness, compared to 90 percent of high-wage and high-income workers.[18] Such workers can also least afford to forgo a day's wages. Staying home sick may mean falling behind on the rent, or risking having the electricity or heat shut off.

Lack of paid sick days causes negative health effects for workers, and their families, increased spread of disease among coworkers, customers and school children, and higher turnover.[19] Without paid leave, workers are more likely to come to work sick, send children to child care or school when sick, and postpone needed medical treatment. Lack of a right to paid sick days can also threaten job security. A recent survey conducted for the Public Welfare Foundation found that one of six respondents reported that the worker or a family member had been fired, suspended, punished or threatened with being fired for taking time off due to personal illness or to care for a sick child or other relative.[20]

Large penalties for those who do not fit the old "ideal worker" model

In spite of the many changes in the workforce, there remains a common assumption that workers should be available to work full-time, year-round, without interruption. Joan Williams refers to this as the "ideal worker" model, and argues that workers who deviate from it pay large penalties.[21]

Workers who take even relatively short breaks from employment pay for it in the form of lasting impacts on earnings. One study found that prime-age women who left the labor market for a single year during a 15-year period made 20 percent less than women who worked every single year, even after adjusting for differences in their education levels and the number of hours worked. Fewer men had such interruptions in their work histories, but those who did paid a similar penalty in lower earnings.[22] Given that workers may well have more than 45 years to spend in the workforce, it does not make sense that taking a year or two off due to childrearing or other responsibilities should lower a worker's earnings for the rest of her or his worklife. But it often does.

One strategy that many families have used to meet their dual responsibilities as workers and caregivers is to limit one member's paid employment to part-time. But workers who are unavailable for full-time work often pay dearly for that flexibility in lower wages, lesser benefits, and limited advancement opportunities. Part-time workers earn, on average, 20 percent less per hour than other workers with the same levels of education and experience, and are much less likely to receive either health insurance or pension benefits from their employers. This is in part due to the concentration of part-time jobs in a limited number of low-paying industries.[23] In many occupations, the only part-time opportunities are those negotiated on an individual basis, often as a way to retain stellar performers, but not available to the workforce as a whole.

It is not just private employers who economically penalize part-time workers; public policy does so as well. In half of the states, workers who are available only for part-time work are categorically ineligible to receive unemployment insurance, even though their wages are subject to the unemployment insurance tax. Even when not categorically excluded, part-time workers often fail to meet the minimum hours or earnings requirements to qualify for benefits. The result is that only about one in eight part-time workers who becomes unemployed receives unemployment benefits.[24] Similarly, the FMLA does not cover workers who have worked less than about 60 percent time for a single employer over the previous year. These policies are

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[17] Vicky Lovell, *No Time to be Sick: Why Everyone Suffers When Workers Don't Have Paid Sick Leave*, Institute for Women's Policy Research, Washington, DC, 2004.

[18] James T. Bond and Ellen Galinsky. *What Workplace Flexibility is Available to Entry-level, Hourly Employees.* 2006.

[19] Vicky Lovell, *No Time to Be Sick: Why Everyone Suffers When Workers Don't have Paid Sick Leave.* Institute for Women's Policy Research.

[20] Public Welfare Foundation, *American Workers Overwhelmingly Support Paid Sick Days, Labor Day Survey Finds*, August 29, 2008. http://publicwelfare.org/AboutUs/documents/PollNRFINALa.pdf

[21] Joan Williams, *Unbending Gender: Why Family and Work Conflict and What to Do About It,* Oxford University Press, 1999.

[22] Stephen J. Rose and Heidi I. Hartmann, *Still a Man's Labor Market: The Long-Term Earnings Gap,* Institute for Women's Poicy Research,

[23] Jeffrey Wegner, *The Continuing Problems with Part-Time Jobs,* Issue Brief #155, Economic Policy Institute, April 2001.

[24] National Employment Law Project, *Part-time Workers and Unemployment Insurance*, March 2004. http://www.nelp.org/ui/initiatives/part_time/parttimeui0304.cfm

based on outdated notions that part-time workers' earnings are not essential to their families' well-being.

Other systems have failed to keep up with the changing workforce and work environment

The burden placed on people who are balancing work and family responsibilities is increased by the many aspects of our economy that have failed to keep up with these changes. I draw attention to three in particular: health care, schools, and child care.

Health care: Today's health care system does more medical procedures on an outpatient basis, and releases patients from the hospital sooner and sicker. From 1970 to 2004, the average length of a hospital stay declined from 7.8 days to 4.8 days overall, and from 12.6 to 5.6 days for patients over 65.[25] While this trend saves the health care system millions of dollars, it is based on an implicit assumption that patients have family or friends who are able to provide care that would once have been provided by professionals. Informal caregivers are frequently expected to change wound dressings and monitor healing, administer medication, assist with activities of daily living such as feeding and toileting, and transport patients to follow-up appointments.

Schools: Our schools, with few exceptions, are open 30 hours a week and continue to run on an agricultural calendar that assumes that children are needed to work in the fields during the summer months. This places a burden on parents who must patch together child care for after school and school breaks. At the same time, the expectations for parents to be active participants in their children's education have increased. Parents believe that we are failing our children if we don't read with them, monitor their homework, help them sell popcorn or wrapping paper to raise funds for their schools, watch them play sports and perform in school plays, and attend parent-teacher meetings. If a child is struggling in school or has a disability that qualifies for an Individualized Education Program, parents will need to attend multiple additional meetings. Parents are responding to these demands: for example, education department statistics show that the number of students whose parents attended a general school meeting increased by 10 percentage points just from 1996 to 2003.[26]

Child care: Reliable, high quality early childhood opportunities and care for school-age children give working parents the support and peace of mind they need to be productive at work. Unfortunately, the cost of child care has increased faster than inflation, and for too many low-income parents affordable child care is out of reach. Even after expansions during the late 1990s, the Child Care and Development Block Grant, which helps low-income working families pay for child care, only reaches about one in seven eligible families.[27] In recent years, deficits have forced states to make substantial cuts to their child care assistance programs. Further, the tax credit for dependent care expenses is non-refundable, so it is useless for families earning less than about $22,000, and the expense limit is not adjusted for inflation.[28]

Conclusion

Work-life issues are sometimes thought of as less serious than the economic challenges that workers face. But the two are inextricably linked. It is only by increasing their hours of work that American families have gained economic ground over the past thirty years.[29] Without access to paid leave or the opportunity to adjust one's hours of work, hard-won economic progress can be set back by a joyous event—the birth of a child—as well as by a sad one—the major illness of a spouse.

While a great deal of attention has been paid to companies' increasing efforts to accommodate the work-life needs of their workers, the vast majority of these efforts have been limited to highly paid employees, with "competing for top talent" and "re-

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[25] National Center for Health Statistics, *National Hospital Discharge Survey: 2004 Annual Summary With Detailed Diagnosis and Procedure Data, Vital and Health Statistics*, Series 13, Number 162, October 2006.

[26] http://www.childtrendsdatabank.org/indicators/39ParentalInvolvementinSchools.cfm

[27] Jennifer Meazey, Mark Greenberg, and Rachel Schumacher, *The Vast Majority of Federally Eligible Children Did Not Receive Child Care Assistance in FY 2000—Increased Child Care Funding Needed to Help More Families*, Center for Law and Social Policy, 2002.

[28] Leonard E. Burman, Elaine Maag, and Jeffrey Rohaly, *Tax Subsidies to Help Low-Income Families Pay for Child Care,* Tax Policy Center Discussion Paper #23, June 2005.

[29] Jared Bernstein and Karen Kornbluh, *Running Faster to Stay in Place: The Growth of Family Work Hours and Incomes.* New America Foundation, June 2005.

taining professionals" among the commonly cited benefits.[30] Few of these initiatives reach down to lower-paid hourly workers. Such workers are particularly vulnerable: They have the least flexibility and security at work, the least ability to pay for help, and the least ability to afford missing some of their pay.

Policies such as establishing minimum floors for paid family leave and paid sick days, ensuring equity for part-time workers, supporting those who need to temporarily interrupt their employment, and expanding child care funding are thus a matter of justice. Public policy can not add more than 24 hours to the day, but it can help ensure that workers are not forced to make unbearable choices between caring for their loved ones, and keeping the jobs that they need to pay the bills.

Such policies would also be an important step towards breaking a cycle of disinvestment in low-wage workers. Too many companies assume that high turnover of hourly workers is inevitable, and thus fail to invest in the training, technology or management practices that would make them more productive. Both workers and our economy are worse off as a result. By using labor standards to set expectations for the workplace, government can take the "low road" option off the table, and give companies trying to do the right thing a little bit of breathing room, so that they are not immediately undercut by competitors taking the most brutal cost-cutting approach. In the long run, companies that take the "high road" by treating their hourly workers well can thrive in the marketplace by reducing turnover, increasing productivity, and improving customer service. [31]

Thank you for providing me the opportunity to testify.

Chairman MCDERMOTT. Thank you very much for your testimony.

Gregory Acs is a Ph.D. who is a principal research associate at the Urban Institute.

Dr. Acs.

STATEMENT OF GREGORY ACS, PH.D., PRINCIPAL RESEARCH ASSOCIATE, THE URBAN INSTITUTE

Dr. ACS. Mr. Chairman, Mr. Weller, and distinguished Members of the Subcommittee, thank you for inviting me here to discuss the status and prospects of low-wage workers in the United States. The views I express are mine alone, and should not be attributed to the Urban Institute, its trustees, or its funders.

There is no official definition of the term "low wage worker," but research generally suggests that, in today's dollars, the low wage line is about $10 an hour, and about a quarter of workers are low wage workers.

To discuss the characteristics of low wage workers and their jobs, I draw on recent work with Austin Nichols. Note that not all low wage workers are poor, or even low income. About half of low wage workers are secondary or tertiary workers in families with incomes above twice the poverty line—that is about $42,000 a year—but that means about half of low wage workers are, in fact, in low income families.

Low wage workers have less education than the average worker. Less than one-half of low wage workers have some education beyond high school, as compared with 60 percent of all workers. This suggests that some type of post-secondary education or training may help raise their wages.

Low wage workers are more likely to be under age 30 than the average worker—39 percent versus 27 percent—and, as such, they

[30] Corporate Voices for Working Families, *Business Impacts of Flexibility.*

[31] Elizabeth Lower-Basch, *Opportunity at Work: Improving Job Quality,* Center for Law and Social Policy, September 2007.

may expect to have wage growth as they gain experience on the job.

Low wage workers, particularly those in low income families, are more likely to reside in central cities and in rural areas than the average worker. This suggests that low income workers may have limited access to better-paying jobs in growing suburban areas.

The employment and job characteristics of low wage workers also differ from those of the average worker. Seventy percent of all workers work full-time, full year, compared to about half of low wage workers. The fact that about half of low wage workers do not work full-time year round contributes to their low income status. However, whether they could sustain full-time, year round work is uncertain.

Low wage workers are also disproportionately likely to work in smaller firms. Due to their small size, these firms may lack the resources to pay higher wages, or offer comprehensive benefits, and they may have trouble offering much flexibility to their workers.

Can low wage workers move up the economic ladder? Well, studies show that the wages of low wage workers grow by four to 8 percent with each year of additional experience. What does this mean for our low wage worker?

Well, consider a worker who takes a job at today's Federal minimum wage, $6.55 an hour. Even with 8 percent annual wage growth—and this is the high end of the estimate—it would take 6 years for this worker to start earning more than $10 an hour. The path up the pay scale is even harder when you consider how challenging it is for low wage workers to sustain full-time employment year in and year out.

What work supports are available to low wage workers? Well, we consider work supports to include both public sector programs and private sector employer practices that promote job security, employment, and the advancement of workers. Private sector, or employer work supports, include non-wage benefits, like health insurance, training, educational benefits, paid time off, and even some form of retirement benefits. As we have heard, low wage workers have much less access to these employer-sponsored supports than higher wage workers.

Now, on the public side, any program that supports the material well-being of low income working families can be thought of as a work support, although programs like food stamps are not themselves conditioned on work, while others, like the earned income tax credit, require it.

These public programs interact in complex ways. By supplementing the resources of the very lowest earners, these programs make work substantially more attractive financially, than relying solely on public assistance.

However, because these public supports are aimed at low income working families, they phase out as a worker begins to move up the economic ladder. Depending on the types of public assistance a low wage worker's family receives, moving from $15,000 a year to $20,000 a year, the equivalent of a raise from $7.50 to $10 an hour, may mean only a meager increase in disposable income, as higher earnings displace public assistance. The family's EITC is reduced, and they start incurring positive tax liabilities.

In short, low wage workers are less likely than other workers to receive private sector employer-sponsored benefits that support their work efforts. Public sector work supports provide substantial incentives to start working, but limit the financial incentives for low wage workers and low income families to take the next step up the economic ladder.

Finally, other governing policies and laws ranging from minimum wage statutes to worker protection laws all, to some extent, affect low wage workers, but they may be poorly targeted, and they have unintended consequences. There are no easy answers to the challenges facing low wage workers and low income families. The challenges are complex, and solutions that address worker skills, employer practices, and the specific needs of low income working families all need to be considered. Thank you for your time.

[The statement of Mr. Acs follows:]

Low-Wage Workers in the United States:

Status and Prospects

Statement of

Gregory Acs, Ph.D.

Principal Research Associate
The Urban Institute

Committee on Ways and Means
Subcommittee on Income Security and Family Support
United States House of Representatives

September 11, 2008

Low-Wage Workers in the US: Status and Prospects

Mr. Chairman, Mr. Weller, and distinguished members of the subcommittee, thank you for inviting me here to discuss the status and prospects of low-wage workers in the United States. The views I express are mine alone and should not be attributed to the Urban Institute, its trustees, or its funders. I will begin by describing the size and characteristics of the low-wage workforce and the jobs low-wage workers hold. Then, I will discuss the prospects for wage growth and upward mobility. Finally, I will say a few words about the policies and programs that help support low-wage workers and their families.

There is no official definition or consensus on how little a worker must earn to be considered low-wage or how much time he or she must put in on the job to be considered a worker. As such, you will find a number of different definitions of "low-wage worker" in the literature. For example, some researchers set the low-wage line relative to the federal minimum wage—Acs and Nichols (2007) use 150 percent of the federal minimum wage as their cutoff. Others compute the low-wage line in terms of how much it would take to keep a family of four out of poverty if a worker worked full time, year round (Schochet and Rangarajan 2004). Still others define low-wage workers as anyone in the bottom 20 percent of the wage distribution (CBO 2006); of course, this approach guarantees that exactly 20 percent of all workers are low-wage workers. And studies that focus on a wider swath of the population (say, everyone over age 16) find more low-wage workers than studies that focus on narrower subgroups (say workers age 18 to 61).

Despite these differences in how the low-wage line is defined and who is included in any particular analysis, the findings across studies are remarkably consistent. In today's dollars, the low-wage line is about $10 an hour, and about a quarter of workers are low-wage workers.

Low-wage jobs are not necessarily bad things. Low-wage jobs serve as entry-level jobs for new workers and those returning to the labor market after long absences—the first step on a job ladder or a stepping stone to better, higher paying jobs. They provide earnings opportunities for secondary and tertiary workers in families with higher-wage primary workers, supplementing family incomes. Indeed, about half of all low-wage workers live in families with incomes over twice the federal poverty line (Acs and Nichols 2007). In other words, their family incomes are above $42,000 a year, most likely due to the earnings of higher-wage primary workers in the family. That's the "half full" interpretation; on the flip side, half of all low-wage workers—more than one in ten workers—live in low-income families.

Characteristics of low-wage workers and their jobs

Low-wage workers differ in many ways from average workers, and low-wage workers in low-income families are a special subset. Data tabulations from the 2004 Annual Demographic Supplement of the Current Population Survey by Acs and Nichols (2007) highlight key differences.

Earnings are linked to education; thus, although 60 percent of workers have some education beyond high school, only 46 percent of low-wage workers do. But four out of five low-wage workers have at least a high school education, suggesting that postsecondary education or training may help raise their wages. The educational deficits for low-wage workers in low-income families are even larger than those of low-wage workers in general: only 35 percent of low-wage workers in low-income families have more than a high school degree, and 28 percent do not even have a high school degree.

Low-wage workers are more likely to be young (between age 18 and 29) than the average worker (39 versus 27 percent). This segment of the low-wage workforce (18- to 29-year-olds) may expect wage growth as they gain experience. There are only minor differences between the ages of low-wage workers and low-wage workers in low-income families.

The race/ethnic distribution of low-wage workers is similar to that of all workers—they are a little less likely to be white and a little more likely to be Hispanic. However, low-wage workers in low-income families are far less likely to be white and more likely to be Hispanic than the average low-wage worker and the average worker overall.

Low-wage workers are slightly more likely to be in fair or poor health than the average worker (9 versus 6 percent), but distressingly, those in low-income families with children are almost twice as likely as the average worker to report fair or poor health (12 versus 6 percent). Poor health may limit the jobs available to these workers in several ways; for example, they may be less able to perform certain tasks or adhere to work schedules, and the employer's cost of providing benefits may increase. In addition, the jobs low-income workers hold may be more dangerous than those higher-income workers hold. Further, low-wage workers in low-income families may be at heightened risk of poor health because the housing they can afford carries greater environmental risks (from lead paint to poor insulation to more crime) than the housing available to higher-income families. Low-income individuals also may not seek out or receive appropriate medical care for emergent conditions that can worsen substantially if left untreated.

Finally, low-wage workers, particularly those in low-income families, are more likely to reside in both central cities and rural areas than the average worker. This suggests that low-income workers may have limited access to better-paying jobs in growing suburban areas.

The employment and job characteristics of low-wage workers and low-wage workers in low-income families also differ from those of the average worker as well as

from one another. Seventy percent of all workers work full time, year round, compared with about half of low-wage workers and low-wage workers in low-income families. Among low-wage workers, those in low-income families are more likely to work full time but for only part of the year than the average low-wage worker (23 versus 19 percent) and slightly less likely to work part time (27 versus 30 percent). The fact that about half do not work full time, year round, contributes to their low-income status. However, whether they could sustain full-time, year-round work is uncertain.

Interestingly, among married workers, having a spouse who works full time and even full time, year round is common. Regardless of wage status, about 70 percent of married workers have a spouse working full time and 60 percent have a spouse working full time, year round. This is slightly less common among low-wage workers in low-income families. Nevertheless, 57 percent of low-wage workers in low-income families with children have a spouse working full time, and 42 percent have a spouse working full time, year round. Again, more work on the part of spouses could lift these families into a higher income status; nevertheless, spouses of low-wage workers do work substantially, and how much more they could work is unclear.

Low-income workers are disproportionately likely to work in smaller firms. Although 20 percent of all workers are employed in firms with fewer than 10 workers, such firms employ 42 percent of low-wage workers and 35 percent of low-wage workers in low-income families. Because of their small size, these firms may lack the resources to pay higher wages or offer comprehensive benefits, and they likely cannot offer much flexibility to their workers.

Across broad industry categories, there are differences in workers' employment patterns, although few differences stand out. For example, low-wage workers are more likely to be employed in leisure and hospitality and other service industries than the average worker (14 and 8 percent versus 7 and 5 percent, respectively). Low-wage workers in low-income families are distributed across industries in much the same way as low-wage workers in general. The average hourly wage across industries, however, is 17 percent lower for low-wage workers than for workers in general. This suggests low-income workers are more concentrated in lower-wage industries than workers in general.

Wage Growth for Low-Wage Workers

There are two ways to look at the question of wage growth for low-wage workers: One is to track individual workers over time to see how much their wages grow; another is to consider whether successive cohorts of low-wage workers are receiving real wage gains economy-wide over time. First, consider wage growth among individual low-wage workers. One study that tracks low-wage workers over three and a half years finds that the wages of low-wage workers grow at 8 percent per year (Schochet and Rangarajan 2004). Other studies focus on the value of experience for less-skilled workers and find that wages grow at 4 to 6 percent per year, with stronger growth during times of low unemployment (Gladden and Taber 2000; French, Mazumder, and Taber 2006).

What does this mean for low-wage workers? Consider a worker who takes a job at today's federal minimum wage, $6.55 an hour. Even with 8 percent annual wage growth (the high-end estimate), it would take six years for this worker to start earning more than $10 an hour.

The path up the pay scale is even harder when you consider how challenging it is for low-wage workers to sustain full-time employment year in and year out. Recall that only about half of all low-wage workers work full time, year round, in any given year (Acs and Nichols 2007) and that almost two-thirds of low-wage workers experience at least one month of unemployment during a three and a half year period (Schochet and Rangarajan 2004).

Next consider how low-wage workers as a group have fared over time—how much better off are today's low-wage workers than low-wage workers from previous decades? The answer is, "not much." A 2006 CBO study looked at the distribution of wages between 1979 and 2005, examining how the wages of the 10th percentile changed over time. Nine out of ten workers earn more than the 10th percentile wage rate while one in ten earn less. Between 1979 and 1990, the inflation-adjusted wage rates for workers at the 10th percentile of the wage distribution fell by 11 percent; between 1990 and 2005, wages at the 10th percentile grew by 12.8 percent. This means that a low-wage worker today makes about the same as a low-wage worker in 1979.

In addition, low-wage workers are losing ground relative to the average worker. Between 1979 and 2005, the gap between the median wage and the 10th percentile wage widened by 10 percent (CBO 2006). Low-wage workers are falling even farther behind workers near the top of the wage distribution: from 1979 to 2005, the gap between wages at the 90th and 10th percentiles increased by 29 percent (CBO 2006).

Supports for Low-Wage Workers

Work supports include both public-sector programs and private-sector employer practices that promote the security, employment, and advancement of workers. Public-sector programs are directly aimed at low-wage workers while private-sector work supports are generally more available to higher-wage workers than to low-wage workers.

<u>Private-sector supports</u>. Private-sector or employer work supports include nonwage benefits (like health insurance), training and educational benefits, paid time off, and even some form of retirement benefits. Low-wage workers have much less access to these employer-sponsored supports than higher-wage workers. For example, over half of all workers receive health insurance coverage through their own employers. In contrast, only one in five low-wage workers do so (Acs and Nichols 2007). Similarly, only 46 percent of working poor parents and 61 percent of working parents with income between 100 and 200 percent of FPL have any paid time off (Phillips 2004). Both health insurance and paid time off have been shown to help keep workers on the job (Holzer, Stoll, and Wissoker 2004; Lee 2004; Levin-Epstein 2007).

Public-sector supports. Public-sector or government-sponsored work supports are a mix of programs that provide financial and in-kind support to low-income families as well as those directly linked to the work effort of low-wage workers. Low-wage workers in low-income families may be eligible to receive benefits from traditional public assistance programs like food stamps, Medicaid, SSI, WIC, school lunch, and even TANF because their incomes are low. As such, these programs can supplement the earnings of low-wage workers; however, as wages and earnings rise, these benefits phase out rather quickly and receipt of such benefits is not conditioned on work.

Other public programs are linked directly to work effort. For example, programs like the earned income tax credit (EITC) are only available to those who work. EITC benefits rise with earnings, peaking at $4,536 (in 2006) when the income of a family with two children reaches about $11,340; benefits begin to phase out when income passes $16,810 (Maag 2007). Thus, the EITC provides considerable support to low-wage workers in low-income families in addition to its role in creating strong incentives for these families to work. Other public work supports like child care and transportation assistance aim to remove specific obstacles to work.

These public programs interact in complex ways with important implications for low-wage workers in low-income families. By supplementing the resources of the very lowest earners, these programs make work substantially more attractive (financially) than relying solely on public assistance (Acs et al. 1998; Acs and Toder 2007). Cauthen (2007) notes that without public-sector work supports, a low-wage working single parent could not meet her basic expenses.

However, because these public supports are aimed at low-income families and low-wage workers in low-income families, they phase out as a worker begins to move up the economic ladder. Depending on the types of public assistance a low-wage worker's family receives, moving from earning $15,000 a year to earning $20,000 (equivalent to a raise from $7.50 to $10 an hour) may mean only a meager increase disposable income as higher earnings displace public assistance, the family's EITC is reduced, and their tax liability increases (Acs and Turner 2008; Carasso and Steuerle 2005). Not all low-income working families take up all the benefits for which they are eligible—in fact, most do not (Zedlewski et al. 2006). Nevertheless, the effective tax rates low-wage workers in low-income families face are quite high—one study by Holt and Romich (2007) using administrative data from the state of Wisconsin shows that, on average, single mothers with incomes between 100 and 250 percent of the federal poverty line would gain 55 cents of disposable income for every extra dollar they earned—an effective tax rate of over 45 percent.

Other government policies. Government policies and laws—ranging from minimum wage statutes to worker protection laws—all, to some extent, affect low-wage workers. Extensive research notes how the minimum wage supports the wages of the lowest earners in the economy and may adversely affect employment opportunities for the less skilled (Neumark and Wascher 2007), so I will not discuss the minimum wage at great length here. Note that even with the scheduled increase in the federal minimum wage to $7.25 an hour in July 2007, it is still below its real value from 1979. Further,

many states have gotten out in front of the federal government and have higher minimum wages. When considering changes to the minimum wage, such as indexing it for inflation, it will be important to be mindful of the extent to which such changes would lead to a decrease in full-time work, the availability of low-wage jobs, and which low-wage workers would be most affected (e.g., teenagers in higher income families versus low-income single mothers).

Certain laws aimed at all workers may be particularly important in helping low-wage workers keep their jobs and retain their opportunities for advancement. For example, the Family and Medical Leave Act of 1993 (FMLA) provides job-protected parental and medical leave for qualifying workers (Waldfogel 2007). Without such a law, low-wage workers may be more likely than the average worker to lose their jobs if they have to take time off for medical or family reasons. But, because FMLA only applies to larger employers and requires workers to have spent 1,250 hours on the job in the previous year, the law covers only about half of all workers, and low-wage workers are less likely to be covered than the average worker because they work in smaller firms and have less stable employment histories.

Other existing and proposed laws at the local, state, and federal levels share similar features: those aimed directly at low-wage workers (like living wage ordinances) may have disemployment effects, while those aimed at all workers but particularly helpful to low-wage workers (such as paid time off or paid parental leave) may not reach all these workers due to exemptions for small employers and work history requirements.

Summary

To conclude, the following are key facts about low-wage workers:

- Low-wage workers represent a substantial share of the workforce—about one in four workers earns low wages.
- Low-wages do not necessarily equate to low incomes. About half of all low-wage workers live in families with incomes above twice the federal poverty line (about $42,000 for a family of four in 2007).
- Since 1979, the position of low-wage workers in the economy has declined relative to the average worker and especially relative to high earners (90th percentile).
- Low-wage workers who stay employed and gain experience do enjoy wage growth averaging between 4 and 8 percent a year; however, only about half of all low-wage workers work full time, year round, and even with 8 percent raises every year, it takes them six years to surpass $10 an hour if they start at today's minimum wage.
- Low-wage workers are less likely than other workers to receive private-sector, employer-sponsored benefits that support their efforts to work. Public-sector work

supports provide substantial incentives to work but limit the financial incentives for low-wage workers in low-income families to take the next step on the economic ladder.

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Chairman MCDERMOTT. Thank you very much for your testimony.

Now, Mr. Beach, William Beach, is the director for the Center for Data Analysis at the Heritage Institute.

Mr. Beach.

STATEMENT OF WILLIAM W. BEACH, DIRECTOR, CENTER FOR DATA ANALYSIS, THE HERITAGE FOUNDATION

Mr. BEACH. Yes, thank you, Mr. Chairman, Mr. Weller, Members of the Subcommittee.

I testified last January before the Joint Economic Committee on the state of the economy, just as Congress began its debate over legislation to stimulate the economy. While my fellow panelists and I recognize the rough economic waters that the U.S. economy had entered, I did not join them in urging passage of a stimulus package.

Past efforts by Congress to jumpstart a declining economy have done little economic good, and what temporary boosts to consumption or output occurred were borrowed from future production and purchases. Just as soon as the stimulus wore off, the economy fell

back to a sluggish pace, and we are seeing evidence of that repeating itself once again.

There are, of course, a host of policy moves that Congress can make that are much more likely to help the economy than those that have been recently made, or that Congress is now planning to legislate. Temporary investment tax credits, bonus depreciation, or permanent reduction in the corporate profits tax all help build economic strength and create jobs.

Also, clearly signaling your intentions about the expiration of the Bush tax relief measures will take enormous uncertainty out of the investment future and help businesses build their expansion and location decisions, as well as create jobs.

Let me add another point that economists should have emphasized more back in the winter of this year. Rapidly increasing prices for gasoline and petroleum-based energy generally have slowed the economy and continued to impede job and income growth. If Congress acts to expand energy supplies, forward looking prices will fall, and economic activity will shed off the drag that stems from this sector.

Let me illustrate. Economists working with me at the Center for Data Analysis at Heritage estimated the economic effects of a $2 increase in retail unleaded gasoline. We have just experienced such an increase over the past 14 months. We found that total employment falls by 586,000 jobs. Aftertax personal income falls by 532 billion. Personal consumption expenditures fall by 400 billion and significant personal savings would be spent to pay for the increased cost of gasoline.

These national-level results reflect the economic effects of price changes. We looked at the economic effects on three types of households. Let me describe the effects on one of these, a married household with 2 children under the age of 17. For this household, disposable income falls by $1,085, as a result of this increase in price of gas. Purchases of goods and services fall by $719, and $792 is taken out of personal savings, just to pay the gasoline bill.

Now, I am a free trader, just like Mr. Weller, who believes imports are central to our economic vitality and future economic strength. However, our heavy reliance on foreign oil producers—imported oil now constitutes over 60 percent of our daily petroleum demand—has made us subject to price variations due to supply disruptions, supply extortion, and booming world demand.

In another study prepared by economists in my center, we asked, “What would be the economic effects of increasing domestic production of petroleum by 10 percent?” The U.S. currently consumes 20 million barrels of petroleum per day, of which 65 percent comes from foreign sources. If domestically sourced petroleum increased by two million barrels per day, what would be the economic effects?

Our analysis indicates that such an increase would, first, expand the nation’s output, as measured by the gross domestic product, by $164 billion, and increase employment by 270,000 jobs.

Congress exercises enormous authority over petroleum mining, largely through its regulation of offshore and Federal land oil reserves. Authorizing more oil mining in these reserves today would begin to wean the United States from economically harmful reliance on such foreign petroleum.

Enacting economic policies that are ineffective or counter-productive is really worse than doing nothing. If Congress fails to act now, then markets will develop work-arounds for these problems that can be fixed, or liquidate those that cannot be addressed.

However, if the House and the Senate enact policies in those limited areas where its actions do make a difference, then the near-term economic picture, both of the general economy and of the 150 million workers who make it tick, should be much better. Thank you very much.

[The statement of Mr. Beach follows:]

Statement of William W. Beach, Director, Center for Data Analysis, The Heritage Foundation

My name is William W. Beach. I am the Director of the Center for Data Analysis at The Heritage Foundation, a Washington based public policy institute. The views expressed in this testimony are mine alone and do not represent the views of The Heritage Foundation.

I testified last January before the Joint Economic Committee on the state of the economy just as Congress began its debate over legislation to stimulate the economy. While my fellow panelists and I recognized the rough economic waters that the U.S. economy had entered, I did not join them in urging passage of a stimulus package. Past efforts by Congress to jump start a declining economy had done little economic good, and what temporary boosts to consumption or output occurred were borrowed from future production and purchases: just as soon as the stimulus wore off the economy fell back to its sluggish pace.

How well has Congress's first stimulus bill performed?

- In January, unemployment stood at 4.9 percent of the civilian labor force. Today it stands at 6.1 percent.
- In January, 7.6 million people were looking for work. In August 9.4 million were unemployed.
- The Dow Jones Industrial Average on January 31 closed at 12,650. On August 29 it closed at 11,543.
- Some supporters of the first stimulus legislation point to the stronger growth in GDP during the second and third quarters as compared to the first. Clearly some additional consumption did take place, and it can be attributed to the rebate checks.
- However, the additional consumption fell far short of the amount of the rebate checks. Further, there is evidence that consumption has fallen back down and that a disproportionate amount of the summer's additional spending went to pay for high energy.

Once again, Congress is considering economic stimulus legislation, but this time the proposals are even less economically viable. Extending the period during which workers can receive unemployment insurance certainly provides families with much needed income, but it does nothing to create jobs or put these folks back to work. Helping states with budget shortfalls builds no economic strength for the future. Spending the taxpayers valuable income on bridges and highways has proved time and again to be the worst move Congress can make to address today's economic problems: you can't get the money out of this town fast enough to provide economic relief, and the funds are rarely spent on what the economy really needs.

There are, of course, a host of policy moves the Congress can make that are much more likely to help the economy than those you have recently made or are now planning to legislate. Temporary investment tax credits and bonus depreciation or a permanent reduction in the corporate profits tax all help build economic strength and create jobs. Clearly signaling your intentions about the expiration of the Bush tax relief measures will take enormous uncertainty out of the investment future and help businesses build their expansion and location decisions with better data.

All of these ideas and more were fully covered in the reams of testimony last January. Let me add another that economists should have emphasized more back in the winter of this year. Rapidly increasing prices for gasoline and petroleum based energy generally have slowed the economy and continue to impede job and income growth. If Congress acts to expand energy supplies, forward looking prices will fall and economic activity will shed off the drag that stems from this sector.

Let me illustrate. Economists working with me in the Center for Data Analysis at Heritage estimated the economic effects of a $2.00 increase in retail unleaded

gasoline.[1] We have just experienced such an increase over the past 14 months. We found that

- Total employment falls by 586,000 jobs.
- After-tax personal income falls by $532 billion.
- Personal consumption expenditures fall by $400 billion, and
- Significant personal savings would be spent to pay for the increased cost of gasoline.

These national level results reflect the economic effects of price changes. That is, disposable income falls because the economy slows below its potential. In addition, households have to spend more in gasoline.

We looked at the economic effects on three types of households. Let me describe the effects on one of these: a married household with two children under the age of 17. For this household, disposable income falls by $1,085; purchases of goods and services falls by $719; and $792 is taken out of personal savings just to pay the gasoline bill.

Some analysts argue that gasoline consumers can adapt to higher prices by changing their driving patterns and their automobiles. However, new research by Jonathan Hughes, Christopher Knittel, and Daniel Sperling (all from the University of California-Davis) shows that families today have little opportunity to quickly adapt to higher prices. Most working families have two income earners who commute by automobile to work. They live in suburbs away from mass transit opportunities. Their children have extensive after-school activities to which they are transported more often than not in an SUV. Today's short-term price and income elasticities are a full ten times smaller than those estimated using data from 20 years ago.[2]

These lower elasticities mean that consumers have a much harder time adapting to gasoline price shocks today than two decades ago. Pretty much all they can do is reduce their consumption on other items and take funds out of savings to pay for the higher priced gas. Doing so, of course, slows the economy and makes everyone else worse off.

There are many economic problems facing Congress, from slowing global economic activity to persistently bad news from our financial sector. Congress can act on some of the economic fronts before it, but its ability to affect the nation's economic future is limited. On energy, however, its actions to increase supplies in the short and long run could do some good, particularly for workers looking for jobs and families hoping to keep their children in violin lessons and little league baseball.

I am a free trader who believes imports are central to our economic vitality and future economic strength. However, our heavy reliance on foreign oil producers (imported oil now constitutes over 60 percent of our daily petroleum demand) has made us subject to price variations due to supply disruptions, supply extortion, and booming world demand. I believe that increasing the domestic production of petroleum and refined oil products would have a positive effect on our domestic economy, largely through more jobs and income.

In another study prepared by economists in my Center, we asked what would be the economic effects of increasing domestic production of petroleum by 10 percent. The U.S. currently consumes 20 million barrels per day, of which around 65 percent come from foreign sources. If domestically sourced petroleum increased by 2 million barrels per day, what would be the economic effects.

Our analysis indicates that such an increase would

- Expand the nation's output as measured by the Gross Domestic Product by $164 billion.
- Increase employment by 270,000 jobs.

Congress exercises enormous authority over petroleum mining, largely through its regulation of off-shore and federal land oil reserves. Authorizing more oil mining in these reserves today would begin to wean the U.S. from the economically harmful reliance on so much foreign petroleum.

One of the more tragic features of recent energy policy actions by Congress is how often it has failed to increase access to energy resources on the grounds that doing so would not have any effect on supply or price for years. While possibly correct

[1] See Karen A. Campbell, "How Rising Gas Prices Hurt American Households," Heritage Foundation *Backgrounder*, No. 2162, July 14, 2008. A copy of this report is attached to this testimony as Appendix 1.

[2] See Johanthan E. Hughes, Christopher r. Knittel, and Daniel Sperling, "Evidence of a shift in the Short-Run elasticity of Gasoline Demand," National Bureau of Economic Research *Working Paper,* w12530 (September, 2006).

from an engineering standpoint, this excuse for inaction makes no sense economically. If Congress were to announce greater access to proved reserves, mining activity would immediately begin, capital and talent would leave other parts of the world and travel to the United States, forward pricing markets would feel the downward pressure on prices that impending supply increases make, and ordinary Americans would not discount their own economic futures as much as they do today.

Like tax policy, changes in energy policy signal to investors and consumers what their economic future will look like. Inaction on either front today is not acceptable. If you think we have weathered the economic storms of faltering financial markets and draining energy prices, think again. Major economies around the world are slowing, which places greater pressure on our weakened financial system and faltering manufacturing sector. The value of the current stock of housing will continue to fall. Investment by businesses and households will slow as interest rates rise to fend off inflation and uncertainty permeates more planning about future economic activity.

If Congress fails enact the types of legislative responses to a slowing economy that actually work (tax and energy policy changes fall into the "what work's" category), then we could be in for a very grim six months. I would not be surprised to see little if any growth in GDP over the next two quarters. Consumption in the third quarter of this year is very likely to be negative, and that's the quarter that was supposed to be most affected by the boost from the stimulus. Unemployment will rise, and job growth will not resume until the summer of 2009.

Enacting economic policies that are ineffective and counterproductive is worse than doing nothing. If Congress fails to act now, then markets will develop "work arounds" for those problems that can be fixed and liquidate those that can't be addressed. However, if the House and Senate enact policies in those limited areas where its actions do make a difference, then the near-term economic picture, both for the general economy and the 150 million workers who make it tick, should be much better.

* * * * * * *

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[Additional testimony follows:]

Backgrounder

Published by The Heritage Foundation

No. 2162
July 14, 2008

How Rising Gas Prices Hurt American Households

Karen A. Campbell, Ph.D.

The upward march of retail gasoline prices has affected U.S. households regardless of whether their members drive, take public transportation, or walk. In a modern economy, the interdependency created by supplying specialized labor and trading for all other goods and services produced by other people leaves virtually no one unaffected by the price of gas at the pump.

Analysts at The Heritage Foundation recently examined how going from $3 and $4 retail to $5 and $6 retail per gallon of gasoline would affect the U.S. economy. If prices continue to rise at an accelerated pace over the course of a year:[1]

- Total employment would decrease by 586,000 jobs,
- Disposable personal income would decrease by $532 billion,
- Personal consumption expenditure would decrease by $400 billion, and
- Personal savings would be spent to help pay the cost.

What the Numbers Mean

Table 1 shows what these numbers mean for three representative households' income, consumption, and saving patterns. The first column is the actual data from the 2006 Bureau of Labor Statistics Consumer Expenditure Survey.[2] The simulated impact is in the second column for each type of household, and the third column shows the dollar loss for households.

The estimate is a best case in that mortgage and interest payments remain constant. More likely,

Talking Points

- Higher gas prices lower employment, income, and spending.
- Households initially tap their savings to pay the higher prices.
- Consumption growth slows as households adjust to higher gas prices.
- Slower growth in consumption and higher fuel prices for businesses result in lower employment.
- Employment is also decreased by workers trying to change their work patterns to avoid burdensome commutes.
- Lower employment slows the growth in income, which means slower economic growth over time.
- Markets are signaling a need for more supply. Businesses are trying to respond by making investments in refining capacity and finding new energy sources. This should be encouraged.
- Deficit reduction and inflation vigilance are needed to strengthen the dollar and ease pressure on prices and speculation in commodity markets.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/bg2162.cfm

Produced by the Center for Data Analysis

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Washington, DC 20002–4999
(202) 546-4400 • heritage.org

How Rising Gas Prices Will Affect Households

Projections are based on the price of gas increasing by $2 per gallon. Income and expenditure figures are median values from 2006, the most recent data available.

	Husband and Wife			Married, 2 Children, Oldest Child Age 6–17			Single		
	Actual	Gas Price Effect	Change in 2008	Actual	Gas Price Effect	Change in 2008	Actual	Gas Price Effect	Change in 2008
Disposable personal income	$69,350.00	$68,483.13	**–$866.88**	$86,807.00	$85,721.91	**$1,085.09**	$37,795.00	$37,322.56	**–$472.44**
Income after paying mortgage and interest	$65,468.78	$64,601.91	**–$866.88**	$79,934.71	$78,849.62	**–$1,085.09**	$35,648.05	$35,175.61	**–$472.44**
Average annual purchases of goods and services	$55,631.38	$55,130.70	**–$500.68**	$69,157.47	$68,438.23	**–$719.24**	$33,996.55	$33,690.58	**–$305.97**
Personal savings	$9,837.40	$9,082.89	**–$754.51**	$10,777.24	$9,984.52	**–$792.72**	$1,651.50	$1,424.15	**–$227.35**

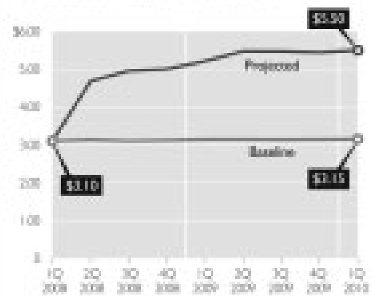
Source: Bureau of Labor Statistics Consumer Expenditure Survey 2006, at http://www.bls.gov/cex/2006/standard/cucomp.pdf. Effects are calculations made by analysts at The Heritage Foundation.

Table 1 • B 2162 heritage.org

increased borrowing and less saving will result in higher interest payments, constraining spending and decreasing the savings of households yet more. It also does not show the increased likelihood that a member of the household will be unemployed.

Chart 1 illustrates the baseline gas price forecast and the higher gas price simulation. The effect of gas prices operates directly and indirectly. Chart 2 shows the effect on employment. Both the demand for labor and the supply of labor are negatively affected, and this lowers overall employment. On the demand side, businesses rely heavily on transportation to get their goods and services to the consumer. Many suppliers have their own fleets; others, who outsource their transportation service, must pay higher costs for this service. Higher costs along with decreased consumer purchases will cause businesses to cut back on jobs. The decrease in employment is not entirely attributable to labor demand, though; labor supply may also decrease. Individuals with

Forecasted Price of Retail Gas



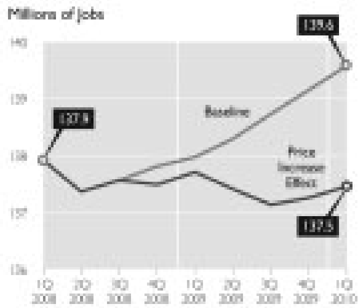
Source: Data for the employment series are from the Bureau of Labor Statistics Employment series. Personal Disposable Income and Expenditure series are from the Bureau of Economic Analysis National Personal Income and Outlays Accounts. Retail gas price data are from the Energy Information Administration. Heritage Foundation forecast simulation uses RATS econometric software.

Chart 1 • B 2162 heritage.org

1. Dollar prices are in nominal terms.
2. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, 2006, at http://www.bls.gov/cex/2006/standard/cucomp.pdf (July 3, 2008).

High Gas Prices Will Lead to Job Losses

If the cost of a gallon of gasoline increases by $2, total employment in the U.S. will decrease by 2.1 million in 2010.



Source: Data for the employment series are from the Bureau of Labor Statistics Employment series. Personal Disposable Income and Expenditure series are from the Bureau of Economic Analysis National Personal Income and Outlays Accounts. Retail gas price data are from the Energy Information Administration. Heritage Foundation forecast simulation uses RATS econometric software.

Chart 2 • B 2162 heritage.org

long commutes may decide to look for other jobs closer to home or give up working altogether.

Chart 3 shows the effect on other household variables. Households tap into personal savings immediately to pay for higher fuel costs because personal consumption expenditures (buying habits) are not adjusted downward as fast as real[3] disposable income is decreased. Disposable income decreases almost immediately. Growth in income rebounds but then adjusts to a slower rate as the feedback from job losses begins to drag it down. Consumption expenditure is then further crimped by decreased disposable income, and higher interest payments from increased borrowing start to crowd out other purchases. This results in more losses to savings. As prices continue to rise, consumers do adjust their spending. This can be seen by the slower growth in spending as compared to the baseline. The overall effect after just two years can be seen by the gap between the baseline and the simulation with higher gas prices.

The rise in energy prices at a time when food prices and other commodity prices are rising may solicit a monetary policy response to fight inflationary pressures. Although this effect was not included in the analysis, this would further increase interest rates and constrain the pocketbooks of businesses and households. However, if this policy sends a signal that the Fed is once again targeting inflation, this may go a long way to ease pressure on commodity prices and strengthen the U.S. dollar. Both of these two effects would serve to ease pressure on prices.

Conclusion

Americans are now facing the prospect of even higher prices at the pump. While there are many other economic influences on household expenditure, personal savings, personal disposable income, and total employment, the Heritage analysis simulated the dynamic movement of these variables in response to movements in the retail price of gasoline.

The results of the analysis show that households react by using personal savings in the short term. This reduction in assets slows other spending, leading to slower growth in purchasing.[4] On the supply side, businesses experience higher production costs while demand for their goods is lower, causing them to adjust their employment downward. Individuals, too, may begin to adjust their work choices as longer commutes make working outside the home less beneficial. These two effects reduce overall employment.

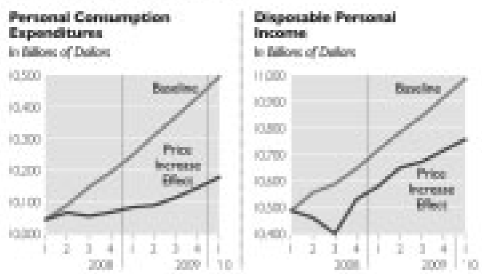
There is a feedback effect between employment and personal disposable income. After a sharp decrease, disposable income starts to grow, but this growth is quickly slowed by the loss of jobs.

3. Real variables are adjusted for inflation and therefore are a measure of what people can "really" purchase with their income (purchasing power).

4. At these prices, it is arguable that the elasticity of demand for gasoline is higher, which should reduce expenditures. The income effect of the higher prices also has a ripple effect throughout the economy.

Higher Gas Prices Will Affect the Entire Economy

If the cost of a gallon of gasoline increases by $2, personal expenditures and disposable income will be affected. The charts below show projections, by quarter, through the first quarter of 2010.



Source: Data for the employment series are from the Bureau of Labor Statistics Employment series. Personal Disposable Income and Expenditure series are from the Bureau of Economic Analysis National Personal Income and Outlays Accounts. Retail gas price data are from the Energy Information Administration. Heritage Foundation forecast simulation uses RATS econometric software.

Chart 3 • B 2162 heritage.org

The overall result after just two years is lower employment, lower disposable income, and lower overall consumption of goods and services.

This is purposefully a short-term forecast. The U.S. economy is known for its innovative responses to economic scarcity. Markets that are unconstrained by excessive regulation can give a clear price signal. Higher prices signal the need for more oil. Businesses are attempting to respond to that need by finding new reserves to drill and increasing investment in refining capacity. The high price also signals entrepreneurs to look for new, more efficient ways to supply the energy needs of consumers.

To the extent that the high price is not a clear signal because of excessive taxes and regulations that artificially make oil scarcer, the government can implement policies that would allow for more oil production. The government can also encourage innovations in energy supply by keeping regulatory burdens to a minimum.

Congress should focus on reining in spending and reducing the deficit. This would serve to lower long-term interest rates and strengthen the U.S. dollar, which would help to ease the pressure on prices. Monetary policy that is expected to be inflation-fighting could also aid in stabilizing prices and curb the current flight to commodities.

—*Karen A. Campbell, Ph.D., is Policy Analyst in Macroeconomics in the Center for Data Analysis at The Heritage Foundation.*

APPENDIX
DATA, METHOD, AND RESULTS

Analysts used Vector Autoregression (VAR) analysis to decompose the historical data and conduct a dynamic forecast simulating a two-dollar increase in the retail price of gasoline. Vector Autoregression is a tool now widely used by economists to gain insights into the dynamic interactions of historical data, measure the impact on other variables to a shock in one of the variables, and make economic forecasts.[5]

This analysis uses the quarterly series for retail gasoline prices (GAS) from the International Energy Agency. Real disposable personal income (DPI) and real personal consumption expenditure (PCE) are from the Bureau of Economic Analysis, and total employment (TE) is from the Bureau of Labor Statistics. The data run from the first quarter of 1980 to the first quarter of 2008. The log of the data was first differenced to achieve stationarity,[6] resulting in 107 usable observations. The series were in real terms.

The following model was estimated.[7] Diff is the logged difference of the variable. J = {1,2,3,4}.[8]

Diffgas(t) = constant + diffgas(t) + diffgas(t-j)

Diffpce(t) = constant + diffgas(t) + diffgas(t-j) + diffpce(t-j) + diffdpi(t+1-j)

Diffdpi(t) = constant + diffgas(t) + diffgas(t-j) + diffte(t-j)+ diffdpi(t-j)

Diffte(t) = constant + diffgas(t) + diffgas(t-j)+ diffte(t-j) + diffpce(t-j)

Factor variance decomposition of the model shows that after its own lags, retail gas accounts for much of the variance in personal consumption expenditure over the longer term (22 percent). The analysis also shows that over time, rather than diminishing, gas prices have an increasing effect on all three variables.

A forecast from the second quarter of 2008 to the first quarter of 2010 was generated to establish a baseline. The baseline predicted an average retail gas price of $2.61 in the second quarter of 2008, which is slightly higher than the average price in the first quarter of 2008 of $2.58 (in real terms). A shock in gas prices was implemented via a price path that increases the difference in gas prices by 40 percent in the first two quarters, 5 percent in the following quarter, and 10 percent in the quarter after that. The remaining quarters were not "shocked." This resulted in a forecast of average gas prices in the second quarter of 2008 of $3.90 and climbing to $4.58 (in real terms).

In order to estimate the nominal prices, the real gasoline prices were adjusted by a deflator of 1.2. This was the deflator used by the Bureau of Economic Analysis to adjust the consumption and income series. Arguably, this is a best-case scenario of the differences in the baseline versus forecast because the same rate of inflation is assumed for both. To the extent that higher gas prices help to fuel inflation, the gap between the baseline and forecasted amounts will be wider.

5. An analysis was run using the Global Insight model of the U.S. economy. These results also showed significant decreases in the variables, with savings being hit hardest first and the employment impact being felt a few quarters later. The Global Insight simulation was for a $1 increase in the price, and the effect on employment was 544,000 jobs lost.

6. The Kwiatkowski, Phillips, Schmidt, and Shin test for stationarity was used. See D. Kwiatkowski, P. C. B. Phillips, P. Schmidt, and Y. Shin, "Testing the Null Hypothesis of Stationarity Against the Alternative of a Unit Root: How Sure Are We That Economic Time Series Have a Unit Root?" *Journal of Econometrics*, Vol. 54 (1992), pp. 159–178.

7. The model was run on RATS v. 6.2 on a PC using the Windows XP OS. Different lag structures were tested and resulted in qualitatively similar results.

8. Durbin–Watson statistics were between 1.89 and 2.04 for the four equations estimated. The standard errors of the estimates for each of the four equations were 0.07, 0.005, 0.007, and 0.003, respectively.

Chairman MCDERMOTT. Thank you very much. As I said earlier, your full testimony will be entered in the record, so that those things you didn't get to say will be recorded.

As my question, I would like to say I want each of you to take a minute and do something for me. Imagine yourself being called by the next President of the United States down to the White House, and asked to write the new Social Security Act of 2009. What would be the two things that you would want dealt with in that new economic security act for the new 21st century?

You can start any place. If you want to start, Dr. Bernstein, it's fine with me, and give the others some time to think.

Dr. BERNSTEIN. Lucky me. Interestingly, I think I would probably go back to some of the fundamentals that that act contained, updating them for today's very different job market, as you have heard from my co-panelists.

The first thing I would focus on is health care. We have, I think, a deep market failure in our health care system. The non-partisan Congressional Budget Office has been doing extremely persuasive work on the unsustainability of our current plan.

It's an area of great policy interest to me and my research in this shows that we have to seek the same solution that every other advanced economy has, which is to take health care out of the market to pursue a universal kind of health care coverage plan, and tap the same kinds of efficiencies they do to cover their full population, spending a half to two-thirds of their economy on health care, compared to us.

Secondly, I would strengthen the pension and the unemployment insurance system, and I can say more about that, but I think my minute is up.

My point is that both pensions and unemployment insurance system were precisely what they were thinking about back then, and it's actually interesting and maybe somewhat alarming to think about the similarities that we're facing now, relative to some of the imbalances in that economy and back then.

Chairman MCDERMOTT. Mr. Ettlinger?

Mr. ETTLINGER. So, I wrote, "Health, unemployment, pension." So, the fact that we worked together for 6 years may be a——

Chairman MCDERMOTT. Well, he talked about health at some length. Talk about pensions.

Mr. ETTLINGER. Yes, I mean, I——

Chairman MCDERMOTT. What would you do?

Mr. ETTLINGER [continuing]. I think that, focusing in on pensions, there has been this shift from defined benefit in the private sector to defined contribution and I think that that is going to persist.

I think that the businesses are going to move in that direction. I think that is going to continue. The downside to that is that, for workers, it's creating more risk for them. As Jared characterized it, it's a shift in risk.

So, that means a couple of things. One is that it means that we definitely have to make sure that Social Security—which is becoming increasingly the only defined benefit that people have—is strong and paying good benefits and is kept up.

The other thing is we have to make sure that everyone has vehicles for defined contribution, if they're not getting employer-provided systems. That's why we're working on, and others have done, come up with other things, too, around the idea of a universal 401(k), which has a number of characteristics. One is that it's portable. It is easy to get. It is automatic, which I think is an important thing because there have been studies that have shown if people are automatically enrolled in things, they're much more likely to participate.

Also, refundable credits for lower income people, so that their contributions into those plans are sufficient that they have an adequate retirement.

Chairman MCDERMOTT. Ms. Basch?

Ms. LOWER-BASCH. I think I would try to fill two sets of gaps. One is between the unemployment insurance system, and temporary assistance for needy families. We know now only about a third of workers who lose jobs receive unemployment insurance. Low wage workers, part-time workers just don't get covered by it and temporary assistance is not picking up the gaps.

Then, on the other side of temporary assistance, the gap between it and SSI, which is for people who are permanently and completely disabled. There are a lot of people who have limitations on their work, or care giving responsibilities, such that they can't fully support their families, but they're able to do something, and we need to figure out a way to provide some income support that doesn't prevent people from working to the maximum extent that they're able to do so.

Chairman MCDERMOTT. Dr. Acs?

Dr. ACS. Well, health care is one and two on my list, but it's well covered, so let me move to education, where I think we have to improve the skills of our workforce, starting with reform at the high school level, and then also postsecondary education.

Chairman MCDERMOTT. How do you fund it?

Dr. ACS. Fortunately, I don't have to.

Chairman MCDERMOTT. The President will ask you, "How are we going to fund this?"

Dr. ACS. I will ask Mr. Beach for help on that later, but also working with community colleges and local employers to identify the skills that they need from their workers, and to develop programs to help workers access this post-secondary training.

The other area that I think probably needs attention is on taxes, and particularly the effective tax rates paid by working families as they try to move up the scale. So, I would expand the earned income tax credit, increase the levels available to those who don't have children, and also try to develop ways to let workers, as they move up, keep more of the money they earn.

Chairman MCDERMOTT. Mr. Beach?

Mr. BEACH. Since I am kind of the rough edge on this panel, I will change the——

Chairman MCDERMOTT. I'm sure you could make some suggestions.

Mr. BEACH. I think economic security is always enhanced if we know that our children are going to be better off than us, if we can look forward to the next generation and say that we have made the

right moves today that make things better in the future. It's one of our metrics.

Greg and I are working with the Pew Charitable Trust on a project just on that very subject. We know that 30 percent of intergenerational economic mobility is due to education, it's the number one factor. So, let's put our focus there, to make sure that education is the best we can make it, and that means a restructuring of the way education is provided in this country, so that we don't make the same mistakes we have made over the past 50 years.

Then, on health care, that's 8 percent more. I join my colleagues in saying it's important, but it needs to be portable and owned, and the patient needs to be the customer, and they need to see the prices. So, there is a lot we can do there, too. Thank you for a great question, Mr. Chairman.

Chairman MCDERMOTT. Thank you. Mr. Weller?

Mr. WELLER. Thank you, Mr. Chairman. Let me just clarify. Dr. Bernstein, you have appeared repeatedly in the news media this year as an economic advisor to Senator Barack Obama, Presidential candidate. Are you speaking on behalf of his campaign today, or are you on your own?

Dr. BERNSTEIN. Oh, I am on my own. I'm an informal economic advisor, I'm not on the campaign's payroll.

Mr. WELLER. I just wanted to clarify that. Thank you. Mr. Chairman, I have a sampling of news clippings which talk about the impact on employment of soaring energy costs, and particularly gasoline costs.

One, for example, notes 23 employees of a trucking company based in Knoxville, Tennessee, who were laid off in March. That included more than half of the company's total workforce. Now, these hardworking Americans were laid off, as the article states, due to soaring diesel and gasoline costs that are hitting the trucking industry especially hard. I would ask, Mr. Chairman, unanimous consent to insert these into the record at this point.

Chairman MCDERMOTT. So ordered.

[The information follows:]

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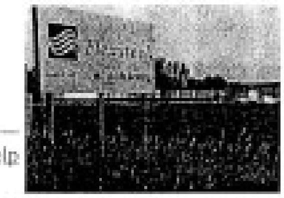
More RV layoffs in Michiana, yet $10.4 million offered in help



Posted: 10:12 PM Sep 10, 2008
Last Updated: 7:11 AM Sep 11, 2008
Reporter: Erin Logan
Email Address: erin.logan@wndu.com

More RV layoffs in Michiana, yet $10.4 million offered in help

Another blow to the business that Michiana relies on to bring in the bucks, more layoffs in the RV industry.

With that bad news, came some good news.

Hours after Flexsteel Industries laid off about 130 workers at its New Paris Plant, Governor Mitch Daniels got word the state will get $10.4 million to help displaced RV workers.

There's no question, it's been rough lately for that industry. Companies have laid off thousands of workers in the last year.

Flexsteel workers and the small community of New Paris say their stress level dropped a little Wednesday when they heard about Governor Daniels coming to their rescue, but some still aren't confident the local economy will bounce back anytime soon.

In homes and in businesses on the streets of New Paris some are in panic mode.

Charlie Green says, "A bunch of them cried and all that."

That's because when Green and about 130 others showed up for work Wednesday morning, they were told the doors are closing.

The New Paris plant that makes furniture for RV's will move operations to Dubuque, Iowa in early November.

The reason, the same as the several other companies that closed doors in Michiana this year.

Flexsteel's CEO says, "continued poor conditions in the recreational vehicle industry."

Green says he's only worked there for two and a half years. Yes, he relied on that paycheck to support his wife and three kids, but he really feels sorry for those who spent half their lives here.

Melanie Johns feels the same way. She's seen a lot of sad faces walk through town and pass the doors of Simply Sweet.

Johns says, "It has been very slow here because of all the turnover and people getting laid off. I would love to see people get their jobs back.

Johns was somewhat relieved to hear about a $10.4 million grant for laid off RV workers.

The goal is to get them educated and trained for occupations that need employees.

Governor Mitch Daniels says, "I hope folks will take advantage. We've got great jobs waiting. We just can't stop for a day because the national economy isn't helping us out."

Green agrees with the Governor. He's not wasting any time and he hopes others follow his lead.

Green says, "If they don't, you're going to have a lot of people on welfare and stealing trying to make a living."

Even with the news of Governor Daniels' help, people in New Paris say they're still pretty upset as they continue to watch the RV industry lose more and more jobs. They worry that it will never be the same.

Governor Daniels says he has a lot of confidence the RV industry will bounce back.

Find this article at:
http://www.wndu.com/localnews/headlines/28225324.html

☐ Check the box to include the list of links referenced in the article.

<<Back

22 to lose jobs in Neb. plant layoffs

Associated Press - August 13, 2008 12:25 PM ET

HASTINGS, Neb. (AP) - Automotive parts manufacture Eaton Corp. has announced it will lay off 22 workers at its Hastings plant.

The company is asking for people to voluntarily resign and has given workers until Aug. 22 before it begins laying off workers.

The plant manufactures parts for axles on sport utility vehicles and trucks.

The layoffs are the latest in a series of ups and downs the plant has experienced this year.

In March, the company laid off 64 of 88 workers following a strike by American Axle & Manufacturing Holdings. A month later, it hired back 52 of those workers.

The latest layoffs are being blamed on a decline in pickup and SUV sales. Company officials say the layoffs are expected to be permanent.

Information from: KHAS-TV, http://www.khastv.com

Fuel prices cited in trucking layoffs Page 1 of 1

knoxnews
Knoxville News Sentinel

Fuel prices cited in trucking layoffs

Staff and wire reports
Tuesday, March 18, 2008

A Scott County trucking company has laid off just over half its work force, citing rising fuel costs as the reason.

Randy Stephens, general manager with DRC Express, said those truck drivers would be brought back to work if fuel costs come down.

DRC Express has 41 employees, and the layoffs of 23 people are effective Friday, March 21, Stephens said.

He said the fuel costs have really been "putting a pinch" on the company, which at one point was up for sale. DRC hauls general freight, Stephens said.

Soaring diesel and gasoline costs have hurt many companies. Diesel prices rose Monday to a record, above $4 a gallon, and gas prices remained high. Diesel, used in the transport of the vast majority of the nation's goods, rose 1.2 cents to a national average of $4.082 a gallon Monday, according to AAA and the Oil Price Information Service. The national average price of a gallon of gas, meanwhile, dipped slightly to $3.283 a gallon, but remains 73 cents higher than a year ago.

Diesel's surge is hitting the nation's truckers particularly hard, said Bill Graves, chief executive of the American Trucking Association.

"There is little to suggest that fuel prices will decline anytime soon," Graves said in a statement. "Escalating fuel prices are hurting [truckers'] businesses and affecting their livelihood."

While diesel prices continued to rise Monday, oil prices plunged, pulling back at least temporarily from record levels as investors feared that the financial crisis that forced the sale of Bear Stearns Cos. is a sign of deep economic trouble.

A retreat in the oil market could spell relief for consumers. Higher energy prices have by themselves forced consumers to make discretionary-spending cutbacks, a trend that has hurt retail sales. Higher costs for fuel have also driven the price of everything else higher.

Still, gas prices are expected to rise as demand picks up in the spring and summer. In its most recent forecast, the Energy Department said it expects gas prices to rise to about $3.50 a gallon, while many analysts say prices could peak between $3.75 and $4. Those estimates could fall if oil remains on the retreat.

Mr. WELLER. Thank you, Mr. Chairman. Mr. Beach, you talked in your testimony about the impact on Americans of higher gasoline prices. The four of us up here on the panel, both Democrats and Republicans, I think we're all in agreement that we need to do a lot more of everything, and we need to invest in nuclear, we need to invest in hydro-electric, we need to invest in wind, we need to invest in solar.

For the average American, they still drive cars using gasoline and, for the foreseeable future they will, as well. Can you talk about a typical household? Gasoline prices since January of 2007 essentially doubled. What has that meant for a typical household in America? What does that come out to each year, this year, that they paid in higher gasoline prices——

Mr. BEACH. Well, if you take the——

Mr. WELLER [continuing]. Because of our limited supplies?

Mr. BEACH. Right. If you take that typical household, and it consists of two children, two adults, all of that sort of typicality, you will find that they are paying about $800 more. One of the really——

Mr. WELLER. $800 more since January of 2007?

Mr. BEACH. Over the past year.

Mr. WELLER. Just the past year, $800 more.

Mr. BEACH. Just this past year, on an annual rate. The reason we have so much pain out there on gasoline prices this time around is we have more two-earner families who are dependent on cars for commuting, we have more suburban residents who must, in fact,

travel to buy groceries and do all of their errands, and we have so many opportunities for children after 3:00 in the afternoon, as I'm sure the Subcommittee Members well know, that mothers and fathers are constantly going to violin lessons and little league, and football, and so forth. The car is now central.

It is very difficult to change your suburban location to an urban location when the gasoline price goes up a dollar—consumers can't adjust. So, it looks to them like a tax increase. It looks like something imposed without their consent, and they're angry about that.

We find that, in fact, Congressman, not only do they have to spend more, but they're cutting back. Those violin lessons and the little leagues are falling victim to these higher prices. They're going into their savings to pay for gasoline.

Mr. WELLER. So, it's affecting their quality of life.

Mr. BEACH. The quality, yes, and the kinds of investments we make in our kids.

Mr. WELLER. You mentioned the trips to the little league and violin lessons, or——

Mr. BEACH. Right.

Mr. WELLER [continuing]. Piano lessons, or school activities, the school play, or Boy Scouts, Girl Scouts. I think of when I was much younger and growing up on the farm, and my brother and his wife lived in the house next door, and how many trips a day she made to town to pick up the kids at school activities, and little league, and all the various activities kids are involved in, because they lived five miles outside of the community. So, obviously gasoline prices were much less then.

Mr. BEACH. That's right.

Mr. WELLER. I still remember when gasoline was $.28 a gallon when I was in college. So, it has gone quite a ways.

One of my frustrations in all this is—what's that? I am old, and getting older. When I turned 50, my wife said, "So, how do you feel about turning 50?" I said, "Honey, 50 is the new 40." I just turned 51, and she said, "Honey, how do you feel about being 51?" I said, "Honey, I feel 51," as I'm lifting my 2-year-old daughter up, who is getting bigger and heavier.

One of the frustrations I have had is that we're dependent on oil.

Mr. BEACH. Yes.

Mr. WELLER. About two-thirds of the oil that we consume comes from elsewhere.

Mr. BEACH. Yes.

Mr. WELLER. We have locked away so much of what we have and, really, since we all want to do more of everything, the debate really is, "What do we do about domestic production?"

Mr. BEACH. Right.

Mr. WELLER. I want to ask each of the panelists, about what we have out there, really, the areas where opportunities for domestic production are environmentally safe drilling in Alaska, and deep water drilling off our coasts.

In 1996 we sent to President Clinton a bill which would have authorized environmentally safe drilling in Alaska, it would have generated over a million barrels of oil a day. Had he signed it into law, rather than vetoing it, we would be receiving that oil today, which would be increasing our supplies.

I would like to know from each of the panelists, if you could just very shortly tell me, do you support expanding domestic production of oil, so that we can bring down gasoline prices? Dr. Bernstein?

Dr. BERNSTEIN. I thought that the—is it called the Gang of Ten, the group of bipartisan legislators who compromised on this—had it right.

What concerns me is the non-sequitur between this idea of unleashing the outer-continental shelf and ANWR, the non sequitur of that idea and the issues we're speaking about today.

Mr. WELLER. That's a big word, "non-sequitur."

Dr. BERNSTEIN. Well, my point is that the argument that I think you and Mr. Beach are espousing is that if you allowed drilling, if you ended the moratorium that we're talking about, that the families we're discussing today would be helped both in terms of lower cost, and more jobs. I think that's wrong.

If there were lower costs to energy, and I suspect there would be, according to the research I have seen it's a couple of pennies per gallon, and it's about a decade away.

Secondly, if there were jobs to be had by drilling, well, we could have those jobs tomorrow, because there are far, far more square acres open to the oil companies to drill today having nothing to do with lifting the moratorium. So, I believe that this, as a policy situation to what we're talking about, is unrelated.

Mr. WELLER. So, you oppose, then, expanded domestic production through——

Dr. BERNSTEIN. No. I neither oppose expanded domestic production, nor do I disagree with any of the pain that we have described around——

Mr. WELLER. Don't you have to drill where the oil is?

Dr. BERNSTEIN. Well, my understanding—and I guess we could have dual geosurveys here—but my understanding is that there is far more oil available in the open lands for drilling today under the ground that is within the purview of these companies to go and drill in.

So, I view this notion that you have to open up the OCS and the ANWR as more of a land grab than a real earnest——

Mr. WELLER. All right. Mr. Ettlinger, do you support increasing domestic production?

Mr. ETTLINGER. First of all, I would associate myself with what Dr. Bernstein said, in terms of what the economic impact of doing such would be, in that it would be very small.

The other thing I would say is that it is a valuable resource. If, indeed, one could do it in an environmentally sound way, the reasons not to do it go away. I think there is a lot of dispute on whether it can be done in an environmentally sound way, and I don't claim to have expertise in that.

Mr. WELLER. Okay. Ms. Basch.

Ms. LOWER-BASCH. I am going to refrain from commenting about something that I do not have expertise on.

I will, however, note that all this pain that we are discussing is a much greater burden on low income households. Food is a larger portion of low income families——

Mr. WELLER. So, low income families suffer the most from high gasoline prices?

Ms. LOWER-BASCH. Well, gas prices, high energy prices. This is going to be a scary winter for a lot of people.

Mr. WELLER. Dr. Acs.

Dr. ACS. I take no professional public opinion on the oil exploration or development of more oil.

I would note that any rapid transitions to the economy are very hard on families, such as the rapid run-up in gasoline prices that we have seen. I also note that when the prices went up, all of a sudden you see transformations in the economy, there is more interest in alternative types of vehicles, alternative fuels, which may not be profitable if the price of oil is very low, but become profitable as the price rises.

At some point, the oil is going to run out. At some point, we may be more—we may address——

Mr. WELLER. Is that technology immediately available, or is that——

Dr. ACS. That technology is——

Mr. WELLER [continuing]. Going to take some time to introduce, as well?

Dr. ACS. All transitions take time.

Mr. WELLER. Okay.

Dr. ACS. So, the possibility of new—I guess they're called green collar jobs—that might be the response, that might be the longer term upside of today's high energy prices that may offset the pain. That doesn't help a family today.

Mr. WELLER. Dr. Beach, do you want to respond to your friends——

Mr. BEACH. Well, I would just like to say one thing about the argument that it would not make more than a few cents difference to the average working individual. That has to fall on its face.

We have just been through 12 months of looking at the effects of higher oil prices on working families, which could have been, in part, avoided, had we had larger domestic supplies, based on the estimates that I have provided with you today.

If you want to see the harm that that does, to not have a proper energy policy on the kinds of low and moderate income families that are working hard to make a living, then just look at the record of the past 12 months.

Mr. WELLER. If President Clinton had signed into law the legislation which would have authorized environmentally safe drilling in Alaska, what would have been the impact on the price of a gallon of gasoline if that extra million barrels of oil had come in each day?

Mr. BEACH. Well, we have just provided that information. Looking at the impact of two million additional barrels—you just cut our estimates in half—and we would have lower prices, more jobs, and higher output.

Mr. WELLER. Thank you.

Chairman MCDERMOTT. Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman. Ms. Basch, when you said that you were not going to venture an opinion on something about which you knew very little, I was struck that you disqualified yourself from ever being a Member of Congress.

[Laughter.]

Mr. DAVIS. There are only four requirements for being a Member of Congress. You have to be 25, be a legal resident of your State, legal resident of the United States, and be willing to have firm and emphatic opinions about things about which you know nothing.

[Laughter.]

Mr. DAVIS. It's a bipartisan thing that applies to all of us.

Let me get to the subject of the hearing today, which is not drilling. One of my favorite John F. Kennedy speeches, which most people do not remember, is one he gave at Yale University, a commencement in 1962. He talked about the danger and the power of the myth and myth-making in American economic policy. He talked about the dangers that happen when ideas accumulate a power and a weight out of all proportion to the empirical value around it.

I thought about Jack Kennedy's speech as I have listened to some of the arguments from Mr. Beach and others about economic policy. I want to use my 5 minutes of questions to maybe address two myths that float around.

The first myth is this idea that tax rates are the driving factor in a productive economy. Let's look at a little bit of evidence. The 1990s, we created, I think, a net of roughly 22 to 24 million jobs. There is no dispute that, whatever you think of tax policies and of President Clinton, that the tax policies today have enacted dramatic reductions and are less Draconian than President Clinton's tax policies.

Net job growth in the Bush Administration, which is due to end in the next several months—I forget the exact number, but I think we would all agree it is way, way short of 22 million. In fact, right off the top of your head, does anyone know the net——

Dr. BERNSTEIN. 5.7 million.

Mr. DAVIS. Which is, by any math, 17 million to 18 million behind President Clinton's numbers.

Now, this is what tax policies look like under the Bush Administration: substantial reductions of taxation that is non-wage-based; substantial reduction of corporate tax rates; substantial reduction of dividend taxation; substantial reduction of capital gains taxation; no question, a far more generous tax policy. That, itself, seems to undercut a lot of the ideas that we sometimes hear in this city about the necessity of extending every portion of the Bush tax cuts.

There is another piece of data that comes to mind from the Government Accountability Office. From 1998 to 2005, 2 out of every 3 U.S. corporations had no Federal tax liability. Of the large corporations, which are defined as those with over $250 million in assets, or annual sales of at least $50 million, 1 out of 4 large U.S. corporations—who, by the way, generated revenues of $1.1 trillion in 2005—1 out of 4 of them had no tax liability whatsoever.

So, I am a little bit struck by this idea that we somehow need to be more aggressive in reducing taxation, and that to do so is essential to the economy. That strikes me as a myth.

Another myth that I want to address is the one about unionization. I come from a red State, Alabama. I come from a State where our business interests routinely pride themselves on our relatively low levels of unionization.

1947 to 1973 is the period of time in the post-war era where we have had the highest union penetration in the economy in the workforce. Almost 1 out of 4—actually, between 1 in 4 and 1 in 3 Americans who were working were unionized between 1947 to 1973. 1947 to 1973 happens to also be the highest combination of wage and productivity growth in the post-war era.

Contrast that to 1973 to 2008. The level of unionization has plummeted, and is now less than 15 percent of the workforce. Yet our wages have been stagnant for all but 3 years in the late 1990s, and, for the first time, we have seen productivity move forward while wages have declined.

That data seems to undermine the idea that unionization is a destructive element in our economy, or that it's a growth deterrent in our economy.

I wanted to give you all some time to respond to some of what I said. Dr. Bernstein?

Dr. BERNSTEIN. I would like to defer most of my time to my colleague, Mike Ettlinger, because he just wrote a paper about precisely this point.

I will say one other fact, just to amplify what you have said, Mr. Davis, which is that over the course of the 1990s, when we had a very different tax regime in place, one that you wouldn't associate with supply side or trickle-down economics, the median income of working age households went up 10 percent, $5,000 in today's dollars, a 10-percent increase over the course of the 1990s.

The median income of working age households fell $2,000, or 4 percent. That's $2,000. That's real money in today's dollars, $2,000 between 2000 and 2007, a period when productivity expanded by 18 percent. So, it's precisely in the spirit of your comments.

Mr. ETTLINGER. Yes, the paper is—I wish I'd brought a copy. It's coming out tomorrow, but it compares three eras: the era beginning with the enormous tax cuts 1981; the era beginning in 1993, with the Clinton tax increases; and the era beginning in 2001, with the tax cuts you're all very familiar with.

One of the most interesting things is sort of the premise of supply side economic theory, the theory that these tax cuts are going to generate economic growth, is largely that they're going to spur a lot of investment.

Just one of the things that was most telling to me was how much better investment growth was during the post-1993 era, than either the 1981 or 2001 eras. Obviously, things were better post-1981 than they have been post-2001, but even, looking back at that and comparing that era to what happened after 1993, by a number of measures—income, employment growth, wage growth, a number of different measures we looked at—the economy did better for most people in the non-supply side era, if you will.

Touching on corporate taxes for a moment, I think that we probably could all agree, I hope, that the corporate tax system needs some work, that right now we have this—it's been in the paper a lot—we have this high tax rate on corporations, and yet the other side says, "Oh, but compared to other OECD countries, we end up collecting very little in taxes," and that should clue us all in that there is something amiss.

We have enormous problems in how we tax the income of multinational corporations. There are lots of loopholes in the Tax Code. Coming together around trying to get serious about straightening out the corporate income tax—which might allow you to lower the rate some, if you were to do that—would be a really worthwhile endeavor.

Mr. DAVIS. I would be happy to lower the rate if people actually paid them. If I paid no Federal taxes, I could be astonishingly productive. I could certainly spend an enormous amount of money.

I think most people who we represent would say that. Those are staggering numbers to people, that two out of every three companies had no tax liability. Irrespective of what their rate is, through a combination of depreciations, writeoffs, shelters, they're not paying any Federal taxes at all.

Mr. ETTLINGER. 35 percent of 0 taxable income isn't any worse than 25 percent of 0 taxable income.

Chairman MCDERMOTT. Mr. Herger will inquire.

Mr. HERGER. Thank you, Mr. Chairman. My friend and colleague, Mr. Davis, brought up President Kennedy, who is also one of my favorite Democrat Presidents. He campaigned on lower taxes, lowered taxes during his term, and we saw great results, as did President Reagan. I think much of the prosperity of the 1990s was because of the lowering of an incredibly high tax rate during the 1980s.

I am also pleased to read that Democrat Presidential candidate Barack Obama said this week that he has changed his mind, and decided he will not raise income taxes while the economy is struggling. Mr. Chairman, I want to thank you, and appreciate the opportunity to discuss policies that will help American workers.

The current economic slow-down is affecting millions of American families. We are going through the worst housing crisis in a generation, and a credit crisis that has swept through our financial system. Unemployment is on the rise, and American families are struggling to make ends meet with high gas prices making it even more difficult, as we have been discussing.

I do not believe, however, that increasing and expanding government programs that make Americans more dependent on the government is the right path for our workers. Instead, Congress must focus on growing our economy and creating jobs in the short and long term by opening more markets to U.S. producers, reforming health care to free up small business to hire more and increase wages, and blocking massive tax increases that would hamstring entrepreneurs from taking risks and expanding their businesses.

I believe one of the most important issues we can talk about concerning worker security, and one that is extremely timely, is trade. The U.S. economy grew by a robust 3.3 percent in the second quarter. That growth was overwhelmingly the result of growing net exports. Congress has the ability to expand that growth by opening new markets to goods and services U.S. workers produce.

Today, 57 million American jobs—about 40 percent of the U.S. workforce—depend on trade, both exports and imports. Our free trade agreements are a key tool in supporting and growing these jobs.

As of June of 2008, the United States had a trade surplus in manufactured product with our FTA partner countries of $6.6 billion, which includes NAFTA. The independent U.S. International Trade Commission has estimated that three pending FTAs—Colombia, Panama, and Korea—would increase U.S. exports by at least $10.8 billion, supporting thousands more of American jobs.

Congress needs to act now to pass the pending FTAs with Colombia, Panama, and Korea, which will be a real economic stimulus to American families.

Mr. Chairman, at this time—and since this may be our last hearing for the Subcommittee this year—I would like to take this opportunity to thank you, Mr. Chairman, and our colleague, Jerry Weller, for his many years of service to the Ways and Means Committee, to the Congress, and to his constituents. He has been a champion for children, a strong supporter of expanding trade opportunities, and he will be sorely missed, our good friend. Jerry, I wish you and your family all the best.

With that, I yield back the remainder of my time.

Mr. WELLER. Would the gentleman from California yield before he yields back?

Mr. HERGER. Certainly.

Mr. WELLER. Well, first, you are very kind, and I want to thank you. You have been a terrific mentor in the process, as my predecessor on this Subcommittee. You have been a tremendous mentor, and I want to thank you for the support you've given me, but also the friendship and the partnership we have had on many issues.

One point regarding the statement you made, as we talk about the need for a stimulus, obviously part of the stimulus must be energy-related, particularly when it comes to increasing domestic oil production, what we depend on each and every day.

When you think about it, this past quarter we had 3.3 percent economic growth. If you remove from that the portion of the economic growth that occurred from non-export-related activities, we had 3.1 percent economic growth this past quarter, solely because of expanded exports.

So, clearly, as we look at how we can stimulate the economy, expanding trade grows the economy and creates jobs. I recall during the debate on the Dominican Republic, Central American Free Trade Agreement, the Chicken Littles were saying the sky will fall, and auto plants and steel mills will all move to Central America, and we're going to lose lots of jobs. The facts show otherwise.

In fact, when DR–CAFTA was being debated, we had a trade deficit with the DR–CAFTA nations. We have seen, since DR–CAFTA has gone into effect and been implemented, a 150-percent increase in exports to those nations. They have won, as well. They have seen expanded exports, as well, but we have gone from trade deficit to trade surplus, and that's been a key part of the economic growth.

So, I agree with you. When it comes to growing our economy, before us we have two Latin American trade agreements with Colombia and Panama. They represent 45 million people, not only friends with democratically elected governments, but people who have done everything we have asked, and they deserve a vote in this Congress. Before I leave, Mr. Chairman, those two countries deserve a

vote. I believe they will have bipartisan support for those trade agreements, which will grow our economy, and should be part of our economic stimulus package.

So, thank you, and I yield back the time that you yielded to me.

Mr. HERGER. Thank you.

Mr. DAVIS. Mr. Chairman, would you indulge me 60 seconds? You can count them down, if you wish.

Chairman MCDERMOTT. Yes, you may. I yield——

Mr. DAVIS. Three observations. First of all, I like Mr. Weller a great deal, too. I look forward to him proving that there is robust life after Congress, and I wish him and his family well.

Two other quick substantive observations. First one, President Kennedy is often cited as an authority on tax cuts. It should be noted that the top marginal rate was 70 percent, the top corporate rate was 78 percent when he took office. Absolutely, both were in need of reduction, a far different cry from today.

Third and final point, President Kennedy lowered rates across the board. President Reagan lowered marginal rates across the board. What has been unique about the Bush taxation is that not only a marginal rate has been lowered, but whole classes of taxation have seen their rates reduced, which, of course, is a transfer of the tax burden.

We have had a transfer of the tax burden because of the lowering of capital gains rates, the lowering of dividend rates, and, in relative terms, the amount of income that people making under $100,000 a year pay in taxation has not substantially changed from what it was, pre-Bush tax cuts. So, you have had a transfer of the burden. That's what makes the Bush tax policies unique.

Mr. HERGER. Would the gentleman yield for just 30 seconds?

[Laughter.]

Chairman MCDERMOTT. I think I am going to exercise——

Mr. HERGER. I want to agree with him. I want to agree with the gentleman.

Chairman MCDERMOTT. Oh, okay.

[Laughter.]

Mr. HERGER. I want to agree with the gentleman, in that he is correct. The taxes have been shifted, but they have been shifted to the wealthy. In 1989, the bottom 50 percent were paying only 5.7 percent. Today they only pay 3.1 percent. The top 1 percent went from paying 27 percent to 39 percent. So, the wealthy are paying far more today than they were before. So, it was transferred, but not the way most people think.

Chairman MCDERMOTT. As the Chairman of the Subcommittee on Income Security and Family Support, I feel I have expanded my jurisdiction about as widely as I possibly can today.

I would just say on this energy question there is a little bill out there that you can sign on to putting gas stamps into the community development block grant, which would take off $500 of that $800 we hear they're spending extra for 6 months. So, we have put some proposals on the table to deal with the short-term problems of the lower wage workers.

I want to say Jerry has been a good guy to work with. I will miss him. I don't know what the machinations in the Republican side will be, but maybe Mr. Herger will no longer be a Member of this

Subcommittee because he is the Ranking Member on a Committee, and he won't want to come and be on this Subcommittee. We will miss him, as well. I have served with you both when you were chairmen and when you've been here on the Subcommittee, and it's been good to work with you.

Finally, I would say about this Subcommittee—although this hearing wandered a little bit, I want people to think about what's going to happen in 2009. If we're going to have those trade pacts that people want, one of the problems we got into was that we passed Peru and said, "Here comes TAA," and TAA died in the Senate, because we didn't take care of workers.

If we don't deal with the concern of the American workers, those trade bills are going to have a real tough time, because the people who are getting elected to Congress are coming from districts where people are saying, "I'm not sure this trade stuff is so good."

Some of us who are basically free fair traders recognize the uphill climb we make if we do not deal with the workers' anxieties in this country. It is very clear that the things that you're talking about here today will have to be addressed as we go down the road, if our economy is going to continue to be a part of the global economy. We cannot allow our workers to be uneducated, and continue to skim, through using immigration, as a way of filling our educational needs. We cannot do it by saying we're going to take away pensions from everybody.

I fly home on United Airlines. I have 2.8 million miles, so I know all the flight attendants. I said to one of them, "What do you have for a pension?" He said to me, "I have worked 22.5 years for United Airlines, and I have $271 a month for the rest of my life, because when they went into bankruptcy, I lost my entire pension and I am in the pension guarantee fund." So, he has Social Security and $271 a month. When that's what is going on in the economy, it seems to me that we, in this Subcommittee, have to think about it.

So, we will be back on another day. Meeting is adjourned.

[Whereupon, at 1:50 p.m., the Subcommittee was adjourned.]

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